

Business, Stakeholders and Strategic Responses in Pakistan*

Imran Ali

Lahore University of Management Sciences
Pakistan

and

Visiting Scholar
School of Economics and Political Science
University of Sydney
Australia
Email: A.Imran@econ.usyd.edu.au

This paper is an effort to view the historical past of the Pakistan area, in the context of strategic responses from different stakeholders to the forces of the market economy and the emergence of the business segment. Taking a time span for this analysis that goes beyond the reach of most social science discussions of developments in Pakistan, the paper hopes to provide a 'long view' perspective and approach. The paper is put forward as a number of propositions. These should be seen not as definitive statements, but as tentative explorations with several underlying ambiguities. It would thus be equally appropriate to put forward these propositions as questions and queries. Moreover, the hope here is that they will indeed raise many more questions and issues for further work, rather than any 'answers' that they might provide.

Nevertheless, these are cogent and pertinent issues that need to be addressed to try and understand the dilemmas of development and modernization in Pakistan. The longer historical perspective, in contrast to a post-1947 baseline, can enhance our understanding of the real degree of continuity and entrenchment of some of the stakeholder forces and segments that are identified here. Seen then as a package of interactions, the true impact of these forces, and the ways in which their activities and responses have been articulated, can be better assessed. Let us see how these propositions can be put across, keeping to the structure of a broadly chronological arrangement.

The first proposition is that social revolutions in the eighteenth century had long term impacts on the territories that became Pakistan. During the decline phase and eventual eclipse of the Mughal empire, the upper Indus basin, especially the region known in British colonial times as the province of Punjab, experienced great violence and instability. Peasant and lower zamindar rebellions gathered strength as Mughal power waned. Accordingly, the regional elite aligned to Mughal military-administrative functions came under increasing pressure, and finally succumbed to the rebellion 'from below'. The insurrections were primarily aimed at the onerous revenue-rent exactions, and elite over-consumption patterns, that were straining the agrarian economy. The final displacement of the older elite had major repercussions on the way in which the encroaching British colonial power interacted with the Punjabi agrarian hierarchy, in contrast to other parts of northern India. The question arises whether the consequences of these linkages can eventually be traced to the configurations of Pakistan's power structure and political economy. Moreover, some related factors from the eighteenth century need to be explicated further.

*An earlier version of this Paper was presented at the 15th Biennial Conference of the Asian Studies Association of Australia, Canberra, 29 June - 2 July 2004

The second proposition is that the instabilities of the eighteenth century could also have been motivated by, and exacerbated by, the spread of the market economy. Apart from revenue and rental exactions by the state and its functionaries, a further impetus to the anti-state rebellions could have come from 'real' economic maladjustments. Some of these could have been the increasing monetization of the economy, the higher incidence of commercial farming, the growth in demand for agricultural commodities with greater urbanization and economic specialization, and the growing need for agricultural credit to service cash cropping and the state revenue demand. These trends could have led to a higher incidence of indebtedness, and consequently even encroachments on agricultural landholding rights and occupancy. These pressures could have been exerted by 'non-agriculturist' financiers and moneylenders. These elements could then have exercised forms of mortgage foreclosure, perhaps not so much through law as through strong arm tactics. In lieu of debt repayments, they could also have appropriated producers' marketable surpluses, with a consequent loss of producers' margins. On the other hand, more aggressive, efficient and commercialized (and may we say capitalistic?) agriculturists could have created destabilizing inroads into the agrarian economy, thereby producing further strains on weaker or smaller farmers and on service and labouring castes. Can we therefore posit that the sustained, and successful, peasant rebellions marked a 'counter-revolution' against market forces in this part of south Asia?

The third proposition is that the impact of the instabilities from the mid-eighteenth to the mid-nineteenth century proved averse to the prospects of business development in the Pakistan region. The growth of the economy in the Mughal period comprised not only agrarian growth, but perhaps as prominently higher levels of urbanization. The emergence in this region of, in pre-industrial terms, a mega-city like Lahore, with a purported population attaining levels of even around half a million souls, was indicative of a buoyant, and growing, urban economy and culture. There were several medium sized cities, which served equally as centers of administration, trade and secondary sector production. Artisanal communities, trading and financing groups, and extensive urban construction that included premium luxury structures, not to speak of sizeable state facilities, marked this urban efflorescence. This entire sector experienced a considerable downturn in the post-Mughal phase, with its major discontinuities of political economy. This retreat contrasted discernibly from the greater buoyancy of urban economies in other ex-provinces of the Mughal empire, where regional kingdoms provided more stable post-Mughal continuities, and a more conducive environment for business activities. Did this denouement lead to a prolonged, if not permanent, emaciation of entrepreneurial skills and capacities from the Pakistan region, from which it might not to this day have recovered?

The fourth proposition is that the 'centre of gravity' of the macro-economy shifted away from the land based north-western parts of south Asia, towards its western and eastern parts, and towards a sea-borne focus. Up to at least the late nineteenth century, marked by a new agrarian frontier and a revival of Karachi, the Indus basin became a kind of economic backwater. This was in distinct contrast to its earlier strategic position as the import and export base for the long distance and land based trade interactions with central and western Asia. As a result, there do not appear to have remained the kinds of trade volumes that could sustain entrepreneurs of note and scale in this region. The urban contractions, and consequent falls in market demand, could also have undermined the viability of larger scale enterprise in this area, leaving the field clear for more localized micro-enterprise. The latter, especially when not equipped with new technologies, was ill-fitted to achieve for this region the goal of economic modernization through innovative business strategies. European merchants in the east and south, however acquisitive or amoral, did represent modes that envisioned and heralded the economic ordering of things, and thereby the modern age. Did the Indus basin, by contrast, relapse into a more feudalistic mien, where sheer authority, and the noneconomic attributes of life, continued to hold much too great a sway for far too long?

The fifth proposition is that the linkages and alliances created by British colonial power happened to be with agrarian incumbents, the very segments that had achieved the relapse of market forces in the previous regime. The British sought the cooperation of these agrarian incumbents, many belonging to a now autonomous upper peasantry and others newly arisen from

peasant ranks, for overcoming their adversaries in the armed struggle of 1857-58. These groups were then co-opted into a reconstituted British Indian army, as the old Bengal army was phased out. These alliances were further consolidated through the military exigencies in the Afghanistan theatre, with this region converted into both a recruiting ground and a logistical base. Militarization was further compounded through the upper and middle agrarian hierarchy playing a major mercenary role in policing many other territories of the British empire. In return, these segments were conceded proprietary rights in land, recognized as revenue payers, and later enfranchised through political devolution.

The sixth proposition is that the outcome of these alliances moved colonial policy into a paternalistic mode, to safeguard the existing order when threatened by capitalistic groups and market forces. The great debate among British officials in the final quarter of the nineteenth century regarding the consequences of indebtedness, land mortgaging and threatened expropriations of landholders, culminated in the Alienation of Lands Act of 1901. This legislation seriously curtailed the social market for land purchases, restricting such transfers to within 'agricultural castes'. By excluding nonagriculturists, the threatened inroads from a new, more capitalistic class of improving farmers were thwarted, thereby constraining, if not aborting, the very processes that had created the agricultural revolution in Britain itself. Later legislation, such as on mortgage foreclosure, also heavily favoured agricultural incumbents, while commercial groups began to be viewed with increasing suspicion. Legislative assemblies also came to be heavily dominated by the landlord nominees of agricultural holders, with capitalistic groups having virtually no representation. These parameters were substantively inherited by the new Pakistani state, with major consequences for its contemporary political economy.

The seventh proposition is that the extension of canal irrigation in this region further entrenched the upper agrarian segment, at the cost of both business and the poor. This became the largest contiguous canal irrigated tract in the world; and control over the new lands was vested predominantly with individuals and social groups of existing landholding status. This consolidation occurred through major waves of agricultural colonization. While richer non-agriculturists could buy land at auctions, or were rewarded for government service, the rural poor and landless were universally excluded from obtaining landholding rights. Any future policy redirections towards redistributive goals were to prove extremely problematical. Business did grow with the great rise of commercial agriculture, but politically it remained subservient to the upper rural nexus.

The eighth proposition is that the emergent hydraulic society of the Indus basin consolidated the power of both the colonial state's civil functionaries and the military, reflecting again the relative weakness of business. Through centralized irrigation management, the civil bureaucracy now controlled the valuable and scarce resource, canal water. This gave it important leverage over the production system and its practitioners, a very different positioning from its more passive role under rain-fed agriculture. The bureaucracy also controlled and managed the land grant, land transfer and land acquisitions systems that enabled the articulation of agricultural production in these vast tracts. For the native, subordinate bureaucracy, the opportunities for graft and rents served as a precursor to its post- 1947 misdemeanours. For the military, the extensive reservations of lands for ex-personnel, and for the breeding and maintenance of military animals, was again a precursor to the post- 1947 exercise of direct political hegemony. The colonial access to resources by the military also continued with alacrity in Pakistan. Was perhaps the domain of business crowded out by the resource diversions of these major institutional stakeholders?

The ninth proposition is that 1947 proved to be a disaster for business, as its predominant composition out-migrated on the basis of being non-Muslim. While communalism and religious nationalism have been repeatedly discussed as causative factors in the birth of Pakistan, their economic foundations are not so well understood. Rural growth spurred the expansion of market towns and extensive agricultural trade, as well as the clear beginnings of agro-processing. The commercial groups that ran the forward extensions of the agricultural value chain were overwhelmingly non-Muslim. Their new wealth spurred suspicions that they were monopolizing the

margins from agriculture. The prolonged international depression of the 1930s placed further relentless pressure on agricultural producers, driving up agricultural indebtedness, and enabling British econo-bureaucrats to place the blame squarely on 'Hindu moneylenders'. With the consequent religious division of territories, not only a further weakening but a major vacuum eventuated in the ethos of business in the Indus basin. Was this once again a counter-revolution against business?

The tenth proposition is that commercial and industrial growth in Pakistan was imbalanced, and was undertaken by elements that not only had weak social and political entrenchment, but which did little to build strategic alliances with a wider social base. Business in Pakistan was taken in hand by two groups: commercial castes in Karachi that had migrated from western India, and some upcountry groups returning essentially from the leather trade in Indian territory. The politically dominant rural hierarchy was clearly discomfited when some of these families appeared to acquire wealth rapidly, through trade surpluses and induced industrialization. More tellingly, the upper peasantry was also squeezed, as industrial growth was predicated on control of agricultural prices, an overvalued exchange rate that reduced agricultural export earnings but helped capital goods imports, several other forms of incentives and subsidies, and a protected market for overpriced manufactured goods. Moreover, the green revolution inputs of the 1960s marginalized the smaller farmers, while tenant expropriation under military rule damaged the moral economy. The business community, instead of building political organizations and strategic alliances that might have secured their position, made their wager with Ayub Khan's military dictatorship.

The eleventh proposition is that the consequence of inequity and rapid industrial wealth concentration was the 'counter-revolution' of the 1970s, in which private enterprise experienced major reverses and downturns. The election of 1970 not only broke up Pakistan as a single nation, but it represented also a successful coalition of forces against large-scale business enterprise. The Peoples Party under Z.A Bhutto combined the upper peasantry in Punjab, riling under the green revolution; the landed magnates of Sindh, perturbed by the economic threat from the nouveau riche of Karachi; the intelligentsia and socialists, affronted by the loss of civil and labour rights under Ayub; and the smaller and unorganized sector, alienated by policy discriminations in favour of big business. The sweeping nationalization of much of large-scale enterprise under Bhutto effectively stifled and retarded the high ground of business, and it is doubtful whether investor behaviour has even now returned to normality. Moreover, Bhutto later imposed state owned enterprises on agricultural trade, as in wheat procurement and cotton and rice exports. He then began to nationalize the intermediate level agro-processing operations, for flour, cotton, rice and edible fats. By bringing in public sector managers to these enterprises, he endeavoured to placate agriculture producers by thwarting those market functionaries that they had traditionally resented and feared.

The twelfth proposition is that the accumulated impacts of the successive shocks against the market resulted in the emergence of disfigured and misbegotten forms of business. These relied more on distortions and malfunctions in the institutions of capitalism, rather than any over-riding urge to help develop such institutions. The hapless condition of business in Pakistan in the 1980s and 1990s was clearly a product of the shocks of the 1970s. When investment did revive by 1985, after many failed inducements, it continued to concentrate on commodity processing, as with the sugar industry and the lower value added segments of the cotton textile industry. While some genuine entrepreneurs did begin to reinvest, much of the new business entry was sourced out of the graft and liens of military and civil officials, along with collaborating 'business' elements. Some of these groups even became politically eminent in these latter decades, though remaining under military fiat. With weak transparency and accountability, and using the stratagems of 'creative' bankruptcy, much of the new domestic investment ended up as non-performing loans. Moreover, foreign investment throughout remained at unsatisfactory levels, with a growing negative perception of the country's economic outlook. The many windows of opportunity offered by the international economy, in terms of emergent industries, and innovative processes and technologies, also failed to be utilized by Pakistani entrepreneurs. Clearly, by century's end business in Pakistan had failed to achieve a dynamic posture. Added to the internal contradictions were grander forces that were to overtake the destinies of this country at this time.

The thirteenth and final proposition is that in the past quarter century Pakistan was indeed called, and then chosen, by globalization, but for the latter's strategic and geo-political imperatives, rather than for its economic and wealth generating virtues. As we come closer to the present, and as we dilute thereby the benefits of hindsight, it might not be inappropriate to combine experience with interrogation. Though few economic and business benefits accrued to it, Pakistan did nevertheless play a compelling role in the world's geo-politics. Its intimate and vital involvement with the war in Afghanistan, leading to the dismemberment of the Soviet Union, changed the course of world history. Yet it failed to be among the beneficiaries of this transition. Could it be postulated that its role in the modern world was simply that of a dependent mercenary state, and that any pretensions to business and economic demarches were narratives not of self but of the other? Was it merely a coincidence that, first, a military coup in 1977 was followed by a war two years later, which destroyed a superpower? Then, another military coup in 1999 was followed by another war two years later. This second conflict brought the other, and sole remaining, superpower astride some of the most extensive and unexploited natural resources in the world. Did the tangible American propitiation of 'Islamic fundamentalism' for the first war provide also a convenient trigger for its aggressive intents in the second war? As Pakistan turned awash with extremism, to fulfill the needs of geo-political globalization, what could possibly remain of business as a herald of the future?

Select Bibliography

A large number of works by several scholars have helped me to gain an understanding of the issues touched upon in this paper. The paper is also a summation of some of my own work over the years, though the scope of that work would touch upon only a minority of the propositions put forward here. A list of my own studies over the years that are relevant to this paper is presented here, separately from the larger body of scholarship that has made this paper possible, of which a selection is also listed below.

Works by Imran Ali:

Punjab Politics in the Decade before Partition (Research Monograph Series No. 8, South Asian Institute, University of Punjab, Lahore, 1975).

Relations between the Muslim League and the Punjab National Unionist Party, 1935-47, South Asia, No. 6, 1976.

The Punjab Canal Colonies, 1885-1940 (1980, Ph.D. Thesis, Australian National University).

Malign Growth? Agricultural Colonization and the Roots of Backwardness in the Punjab, Past and Present (Oxford), February 1987.

The Punjab under Imperialism, 1885-1947 (Princeton, Princeton University Press, 1988), ISBN 0-691-05527-0. South Asia edition of this book published by Oxford University Press, New Delhi, 1989, SBN 0 19 562405 X.

The Punjab and the Retardation of Nationalism, in D.A. Low (ed.), *The Political Inheritance of Pakistan* (London, Macmillan, 1991).

Emerging Role of Private Sector in Agricultural Development and its Imperatives for Agricultural Education, in P. Amir et al (eds), *Reforming Agricultural Education in Pakistan*, (Islamabad, UNDP 1992).

Sikh Settlers in Western Punjab, in Pritam Singh and Shinder S. Tandli (eds), *Globalisation and the Region: Explorations in Puniabi Identity* (UK, Association for Punjab Studies, 1996; republished by OUP, India).

Telecommunications Development in Pakistan, in Eli M. Noam (ed), *Telecommunications in Western Asia and the Middle East* (New York and Oxford, OUP, 1997).

Canal Colonization and Socio-Economic Change, in Indu Banga (ed), *Five Punjabi Centuries: Polity, Economy, Society and Culture, c. 1500-1990* (New Delhi, 1997).

Business and Power in Pakistan, in Anita M Weiss and S Zulfiqar Gilani (eds), *Power and Civil Society in Pakistan* (Karachi, Oxford University Press, 2001).

National Human Development Report for Pakistan, co-author (UNDP, Islamabad, 2003).

Report of Task Force on Higher Education in Pakistan, co-author (Islamabad, 2002).

Co-editor (with S. Mumtaz and J-L. Racine), *Pakistan: The Contours of State and Society* (Karachi, OUP, 2002).

Co-author (with S. Mumtaz), Understanding Pakistan - The Impact of Global, Regional, National and Local Interactions, in *Pakistan: The Contours of State and Society* (OUP, 2002).

Past and Present: The Making of the State in Pakistan, in *Pakistan: The Contours of State and Society* (OUP, 2002).

The Historical Lineages of Poverty and Exclusion in Pakistan, *South Asia*, Vol. XXV, No.2, August 2002.

The Punjab under Imperialism, 1885-1947 (new edition published by OUP, Karachi, 2003).

Historical Impacts on Political Economy in Pakistan, *Asian Journal of Management Cases*, Vol. 1, No. 2 (2004).

Other Works:

Viqar Ahmad and Rashid Amjad, *The Management of Pakistan's Economy, 1947-82* (Karachi, Oxford University Press, 1986).

Muzaffar Alam, *The Crisis of Empire in Mughal North India: Awadh and Punjab, 1707-48* (Delhi, 1986).

Rashid Amjad, *Private Industrial Investment in Pakistan, 1960-1970* (London, 1982).

J.R. Andrus and A.F. Mohammed, *The Economy of Pakistan* (London, 1958).

N.G. Barrier, *The Punjab Alienation of Land Bill of 1900* (Durham, NC, 1966).

Craig Baxter (ed.), *Zia's Pakistan: Politics and Stability in a Frontline State* (Boulder, Colorado, 1985).

C.A. Bayly, *Rulers, Townsmen and Bazaars. North Indian Society in the Age of British Expansion, 1770-1870* (Cambridge, 1983).

S.J. Burki, *Pakistan under Bhutto: 1971-77* (London, 1980).

- S.J. Burki and Craig Baxter, *Pakistan Under the Military: Eleven Years of Zia ul-Haq* (Boulder, Colorado, 1991).
- The Cambridge Economic History of India*, 2 vols. (Cambridge, 1982).
- P.H.M. van den Dungen, *The Punjab Tradition* (London, 1972).
- Irfan Habib, *The Agrarian System of Mughal India* (London, 1963).
- Parvez Hasan, *Pakistan's Economy at the Crossroads: Past Policies and Present Imperatives* (Karachi, 1998).
- Ishrat Hussain, *Pakistan: The Economy of an Elitest State* (Karachi, 1999).
- T.G. Kessinger, *Vilyatpur, 1848-1968* (Berkeley and Los Angeles, 1974).
- Shahrukh Rafi Khan (ed), *Fifty Years of Pakistan's Economy: Traditional Topics and Contemporary Concerns* (Karachi, 1999).
- Ghulam Kibria, *Shattered Dream: Understanding Pakistan's Development* (Karachi, 1999).
- S.A. Kochanek, *Interest Groups and Development: Business and Politics in Pakistan* (New Delhi, 1983).
- Robert LaPorte, Jr., and M.B. Ahmad, *Public Enterprises in Pakistan* (Boulder, Colorado, 1989).
- S.M. Latif, *Lahore* (Lahore, 1892, reprinted 1981).
- Omar Noman, *The Political Economy of Pakistan* (London, 1988).
- G.F. Papanek, *Pakistan's Development: Social Goals and Private Incentives* (Cambridge, Massachusetts, 1967).
- L.J. White, *Industrial Concentration and Economic Power* (Princeton, N.J., 1974).
- Akbar Zaidi, *issues in Pakistan's Economy* (Karachi, 1999).
- Lawrence Ziring, *The Ayub Khan Era: Politics in Pakistan, 1958-1969* (Syracuse, 1971).
- Lawrence Ziring, *Pakistan: The Enigma of Political Development* (Boulder. Colorado, 1980).