POWER RECONFIGURATIONS AND ENTERPRISE DEVELOPMENT: ELITE CONTESTATIONS AND BUSINESS GROUPS IN PAKISTAN

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2016
POWER RECONFIGURATIONS AND ENTERPRISE DEVELOPMENT: ELITE CONTESTATIONS AND BUSINESS GROUPS IN PAKISTAN

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THESIS SUBMITTED IN FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

FACULTY OF ECONOMICS AND ADMINISTRATION UNIVERSITY OF MALAYA KUALA LUMPUR

2016
UNIVERSITY OF MALAYA
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Elite Contestations and Business Groups in Pakistan
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ABSTRACT

Rapid reconfigurations of power following regime shifts have contributed to the rise and fall of major business groups in Pakistan. The ascendance and decline of Pakistan’s leading enterprises is due to constantly changing collusions and contestations between power elites in institutions such as the military, political parties, bureaucracy, religious groups and international agencies as well as landlords who play a vital role in crafting each regime. This study analyzes how corporate elites deal with each other as well as with other power elites when a regime change occurs, leading to the making of a government headed by a military dictator or a democratically elected Prime Minister.

On the basis of detailed historical political and financial analyses of the performance of business groups, this study provides insights into the outcomes of persistent regime change on corporate development in Pakistan. The theoretical gap in the literature that is covered in this study is the impact of reconfigurations of power among elites on corporate ownership patterns in a developing economy. The theoretical ideas employed here have benefited from Porta’s assessment of state-business nexuses and their implications on corporate ownership and control patterns as well as Faccio’s theorizing of political-business connections.

A qualitative analysis is provided of key historical events that offer insights into the role and contribution of each elite group under different regimes that have held power in Pakistan. In-depth case studies of Pakistan’s leading enterprises are provided in this study. Complementing these case studies are quantitative financial and statistical analyses of the performance of publicly-listed companies of these business groups. This research provides extensive data in the form of the change in
the financial performance that occurred among business groups following their creation of political connections with elites in control of the state. This mode of analysis helps identify the business groups favored by each regime, through the state’s ability to deploy bank loans as well as economic rents to key corporate figures.

This study indicates that while all power elites are strong enough to build and sustain their presence in society, the military elite is the only one that has worked systematically and institutionally to sustain its hegemonic position. Corporate elites use different networking techniques to develop links with ruling elites. The position of business groups in the corporate world keeps shifting with each regime change on the basis of the personal contacts businesspeople have with elites in control of the state. The ‘new rich’ are those business groups that focused on the services sector and real estate. The industrial sector is still controlled by the old business groups. The corporate sector is highly responsive to political decisions and the outcomes of contestations between different power elites. Despite political, security and economic shocks, the corporate sector has experienced massive expansion since 2002 and its sustainability after 2007 has been facilitated by the democratic governments that were able to complete their tenure.
ABSTRAK


Berdasarkan sejarah analisis politik dan kewangan terperinci prestasi kumpulan-kumpulan perniagaan, kajian ini menumpukan perhatian kepada hasil perubahan rejim yang berterusan terhadap pembangunan sector korporat di Pakistan. Kajian terhadap kesan rombakan kuasa di kalangan golongan elit atas corak pemilikan korporat di dalam ekonomi yang membangun akan meliputi jurang teori dalam bahan-bahan ilmiah. Ide-ide dan teori-teori dalam kajian ini berteraskan penilaian Porta, berkencan rangkaian perniagaan dan implikasinya terhadap corak pemilikan dan kawalan korporat, serta teori Faccio mengenai hubungan politik-perniagaan.

Satu analisis kualitatif telah dibuat berdasarkan peristiwa sejarah penting berkencan sumbangan kumpulan elit, di bawah rejim-rejim berlainan yang memegang kuasa di
Pakistan, kepada pembangunan kumpulan-kumpulan perniagaan. Turut disertakan ialah kajian mendalam mengenai kumpulan perniagaan yang terbesar di Pakistan.

Kajian ini juga meliputi analisis kewangan dan statistik kuantitatif prestasi “public listed companies” di dalam kumpulan-kumpulan perniagaan yang terbesar. Data yang luas ini turut di bentangkan melalui bentuk perubahan dalam prestasi kewangan yang berlaku di kalangan kumpulan perniagaan melalui hubungan politik dengan golongan-golongan elit yang mengawal negeri ini. Bentuk analisis ini membantu mengenalpastikan kumpulan perniagaan yang mendapat faedah daripada setiap rejim, melalui keupayaan negeri untuk mengatur pinjaman bank dan juga melalui penawaran faedah-faedah ekonomi kepada tokoh-tokoh korporat.


Meskipun syarikat-syarikat dalam sektor korporat telah mengalami kejutan politik, keselamatan dan ekonomi, mereka telah membangun secara besar-besaran sejak
tahun 2002 dan selepas 2007 telah dibantu oleh kerajaan-kerajaan demokrasi yang mampu melengkapkan tempoh perkhidmatan merek
ACKNOWLEDGMENTS

Decisions must never be arbitrary as they tend to have life-long impact. A decision like pursuing a PhD can prove to be a milestone in one’s life as it involves much more solemnity of purpose and commitment with perseverance and dedication for a good long time. It has been an enriching and an extraordinary experience for me and I feel indebted to each one of the individuals helping me achieve it.

Sincerest of gratitude is most certainly due to the inexhaustible supervision of Dr. Edmund Terence Gomez, Professor of Political Economy at the University of Malaya. Being an uncompromising perfectionist and a thorough professional, he made sure to that I brought the best out of my thesis and he helped me build a credible study based on interesting ideas. Inspired by his conviction, I found myself growing and learning with similar conviction of purpose during the convoluted process of drafting the thesis.

I would like to thank my Co-Supervisor, Dr. Kee Choek Cheong for being a constant source of solace, fosterage and ceaseless guidance; if I was ever low on morale or self-reliance or facts on politics of Pakistan, I knew who to go to for a fillip. I could not have imagined having better advisors and mentors for my PhD study.

I would also like to extend my gratitude to few other senior academics of Faculty of Economics and Administration at UM, especially Professor Rajah Rasiah, Professor Kim-Leng Goh and Associate Professor VGR Chandran for always providing support at each stage of this study and when I sought guidance from them. A special thanks to Dr Marie Aimee Tourres for helping me conceptualize my thesis lines in the early stages. They helped to ensure the smooth sailing of my work.
I would like to mention Mr. Mohammad Sajjad, Director at Institute of Cost and Management Accountant Pakistan (ICMAP) Multan, Pakistan, for sharing his in-depth knowledge on the country’s financial sector, which helped me improve my analysis. But I would not have been able to compile such a huge databased, retrieved personally from the Karachi Stock Exchange (KSE), without a support of my student from The Islamia University of Bahawalpur, Pakistan, Mr. Usman Javed; he also helped with data entry. I am highly indebted to them for their support.

This odyssey would have been tedious and convoluted had it not been for the rejuvenating spirit of my PhD mates and colleagues. They include Nabukeera Madinah, Erum Shafi, Seeku Jaabi, Cyamand Mirza, Evangelos Koutronas, Gold Lola Kafilah, Shujaat Mubarak, Adeel Ahmad and Mariam Saleem Khan. Their constant emotional support was an added incentive in calming my perturbed nerves. But there are few friends like, Navaz Naghavi and Adeel Akram, who played a role more than of being a friend. They showed a belief in my thought processes and they offered a constant ear when I went to them with my complaints. This journey could not have been completed without them and that too in such a memorable way as I now carry with me many happy memories of my life in Malaysia.

The reality could have been very different had I not had the undying comfort, prayers and love of my mother. She was there to make the impossible happen with her prayers and faith. I would like to dedicate this dissertation to her, as a humble token of gratitude to her. I would like to thank my father, my ever supporting brothers, Kashif and Asif, and other family members who believed in me and in all my endeavours beyond the societal pressure and stereotypes. A special thanks to for the prayers of my young niece and nephews which motivated me to complete my task in time.
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<table>
<thead>
<tr>
<th>Symbol</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>1BR</td>
<td>First Bureaucratic Regime</td>
</tr>
<tr>
<td>1DR</td>
<td>First Democratic Regime</td>
</tr>
<tr>
<td>1DT</td>
<td>First Democratic Transition</td>
</tr>
<tr>
<td>1MR</td>
<td>First Military Regime</td>
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<td>Second Military Regime</td>
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<td>3MR</td>
<td>Third Military Regime</td>
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<tr>
<td>4MR</td>
<td>Fourth Military Regime</td>
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<td>ANOVA</td>
<td>Analysis of Variance</td>
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<td>BBG</td>
<td>Big Business Groups</td>
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<td>BE</td>
<td>Bureaucratic Elites</td>
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<td>BG</td>
<td>Business Groups</td>
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<td>CE</td>
<td>Corporate Elites</td>
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<td>CENTO</td>
<td>Central Treaty Organization</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>COAS</td>
<td>Chief of Army Staff</td>
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<td>CSP</td>
<td>Civil Service of Pakistan</td>
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<tr>
<td>CSS</td>
<td>Central Secretariat Services</td>
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<tr>
<td>DTE</td>
<td>Debt to Equity</td>
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<td>EB/EBRD</td>
<td>European Bank for Reconstruction and Development</td>
</tr>
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<td>FATA</td>
<td>Federally Administered Tribal Areas</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FFG</td>
<td>Fauji Foundation Group</td>
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<td>GHQ</td>
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<td>IEO</td>
<td>Independent Election Office</td>
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<td>Abbreviation</td>
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<tr>
<td>IJI</td>
<td>Islami Jamhoori Itihad</td>
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<td>IMF</td>
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<td>IPP</td>
<td>International Power Plants</td>
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<td>IPS</td>
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<td>ISI</td>
<td>Inter Service Intelligence</td>
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<td>Jamaar-e- Islami</td>
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<td>MNC</td>
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<td>MQM</td>
<td>Mutahidda Quami Movement</td>
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<td>NA</td>
<td>National Assembly</td>
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<td>NAB</td>
<td>National Accountability Bureau</td>
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<td>NACS</td>
<td>National Anti-Corruption Strategy</td>
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<td>NATO</td>
<td>North Atlantic Treaty Organization</td>
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<td>NFC</td>
<td>National Fertilizer Corporation</td>
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<td>NRO</td>
<td>National Reconciliation Order</td>
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<td>NWFP</td>
<td>North West Frontier Province</td>
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<td>PAT</td>
<td>Pakistan Awami Tahreek</td>
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<td>PE</td>
<td>Professional Elites</td>
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<td>PICIC</td>
<td>Pakistan industrial Credit &amp; Investment Corporation</td>
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<td>PIDC</td>
<td>Pakistan Industrial Development Corporation</td>
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<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>Pk Rs.</td>
<td>Pakistani Rupee</td>
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<td>PM</td>
<td>Prime Minister</td>
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<td>PML</td>
<td>Pakistan Muslim League</td>
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<td>PPP</td>
<td>Pakistan People’s Party</td>
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<td>ROA</td>
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<td>SEATO</td>
<td>Southeast Asia Treaty Organization</td>
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<td>Security and Exchange Commission of Pakistan</td>
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<td>Tehrik-e-Nifas-e-Fiqh-e-Jafria</td>
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<td>TV</td>
<td>Television</td>
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<tr>
<td>US$</td>
<td>United States Dollars</td>
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<tr>
<td>USA</td>
<td>United States of America</td>
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<tr>
<td>USSR</td>
<td>Union of Soviet Socialist Republics</td>
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<tr>
<td>WAPDA</td>
<td>Water and Power Development Authority</td>
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<td>WB</td>
<td>World Bank</td>
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CHAPTER 1: INTRODUCTION

In studies about regime changes in Pakistan, the implications of the power reconfigurations that ensued on the corporate sector have not been assessed. This is an interesting, though not surprising, omission as Pakistan’s pluralistic power tapestry has always been of a convoluted form, crafted by elites and revolving around issues such as military coups, ethnic heterogeneity, industrialization, Islam and historical precedents such as colonial rule, partition from India and the creation of Bangladesh. Power reconfigurations arising from feuds between a number of competing elites have made it impossible for a single group to absolutely control the political power grid (Hussain, 1979). The flow of power between key groups at different times in history, due to collusions and contestations between power elites, has resulted in multi-variant outcomes on the economy and the corporate sector. This study provides an assessment of the ramifications of these persistent power reconfigurations on Pakistan’s corporate sector.

The study of elites is a key factor in the disciplines of politics, sociology and economics. Scholars have provided a range of models to study the development of power elites and the types of nexuses that have been forged by them. In 2000, the International Political Science Association (IPSA) created a Research Committee on Political Elites to undertake an assessment of elite studies. When the papers were presented at a special session of the IPSA World Congress, an extremely interesting conclusion was reached that merits being quoted at length: “Scholars in elite studies are largely unable to agree about the core features of political elites and how these vary from one country to another or from one historical period to another in the same country. This is the same as saying that there is no accepted typology of political elites to facilitate a theory in which changes in types of political elites would be linked causally to other major political changes, such as changes in regimes or in institutional effectiveness” (Higley & Moore, 2001, p. 88).
Edinger and Searing (1967) argue that “all political systems are more or less stratified and their elites constitute that minority of participating actors, which plays a strategic role in public policy making;” hence, they are called power elites. As the incumbents of such key positions, they have a far greater influence than the masses in structuring and giving expression to political relationships and policy outputs at various levels of authoritative decision-making. They wield this influence by virtue of their exceptional access to political information and positions, giving them highly disproportionate control over public policy-making. Keeping to a similar stance, this research intends to analyze the role of multiple powerful groups and to understand their evolution and their role in public policy-making, which in turn shaped the form of development of the corporate sector of Pakistan.

Higley and Burton (1989) studied elite disunity and its impact on democratic transition in the western world from 1500. They concluded that disunity among national elites is a generic condition and it tends to persist regardless of socioeconomic development and other changes in mass populations. They argued that stable democratic regimes depend heavily on the "consensual unity" of national elites. If elites do not remain unified, political regimes are unstable, a condition which facilitates a breakdown of authoritarian governments and facilitates democratic transitions or, in other cases, power reconfigurations. They went on to categorize in a very articulate way the types and origins of national elites in some selected western countries (Higley & Burton, 1989).

1.1 Scope of Study

Power reconfigurations in Pakistan have led to continuous regime change between the military and civilian governments. This shifting of power between democratic regimes and the military (1958-1968, 1968-1971, 1977-1988 and 1999-2007) has continued to
transpire well into the present period. The economic performance of the country under different regimes is shown in Figure 1.1.

**FIGURE 1.1:** Average GDP Growth Rate Per Government in Pakistan, 1947-2012

Figure 1.1 indicates that whenever there was a military regime (yellow bars), the economic conditions of the country improved; this certainly had a positive effect on the corporate sector and boosted the confidence of corporate elites. Political stability provided by military regimes and less political elite influence over business decisions favored the interests of corporate elites. The blue and red bars indicate that democratically elected governments have not been able to consistently retain power. The black bar shows the period when government changed hands four times in two years; that means there was a new prime minister every six months. The green bars indicate the time when the bureaucracy was controlling the political scene of the country.
This study’s primary focus is on corporate elites and their response to the collusions and contestations that occurred in Pakistan among other existing and emerging elite groups. For certain, a nexus developed among all elite groups, but these collusions are studied with reference to the performance of corporate elites under different regimes that ruled Pakistan. This will allow for an understanding of how corporate elites sustained themselves and expanded over time, compared to other elites.

There are two primary reasons for this focus on corporate elites. First, is the fast growth of this elite group in a country which had started with almost zero industrial heritage and infrastructure. Second is the ability of corporate elites to acquire control of 66 per cent of total industrial assets, 70 per cent of the insurance sector and 80 per cent of the banking industry within the first twenty years of Independence in 1947, a factor that changed the basic structure of the economy and political horizon of the country (Haq, 1968). A few corporate elites had contributed to the Pakistan movement, but how much their participation helped them to acquire top positions in the corporate sector has yet to be answered. For example, among the founders of the Muslim League there were a few Muslim manufacturers, the most notable being Adamjee Pirbhai Aga Khan¹ (later elected

¹ The Adamjee group, though a corporate elite in the early days of Pakistan, lost its position and today is no longer among the top companies. In less than two decades, the Adamjee group established and managed over forty industrial and financial enterprises in East and West Pakistan, Burma, Thailand, Malaysia, Lebanon and the United Kingdom. In 1971, due to ethnic and social differences between East and West Pakistan, a civil war broke out. This ultimately resulted in the bifurcation of the East wing, leading to the creation of independent Bangladesh. The newly-formed socialist government of Bangladesh took control of all major industrial and financial institutions. The Adamjee family lost all its assets in Bangladesh and was compelled to shift its group headquarters to Karachi. On the Western front, the Group became the subject of public criticism following the propaganda of anti-trust laws concerning monopolistic business families of the country. As a consequence of this movement, a large segment of its assets in West Pakistan was also lost under Prime Minister Z.A. Bhutto's nationalization programs in 1974. Source: (http://www.adamjees.net/history.aspx)
as the first president of the League), despite being head of the Ismaili community$. He was closely connected to leading Muslim manufacturers in Bombay (Hussain, 1985).

The other aspect to be investigated is how these corporate elites then utilized their influential position in society and government to further develop their corporate base. To create a complete picture of the development of the corporate sector, there is a need to understand how new business groups entered the corporate sector and went on to become major enterprises.$^3$

1.2 Rationale of Study

This study is a multifaceted study; therefore, the theories followed in it are also from multiple disciplines, including corporate finance, political economy and sociology. The aim of this study is to measure the effect of collusions and contestations among power elites on the rise of business groups in Pakistan. So, first, this study explores theories regarding elites. After reading works from Pareto till Higely and Burton, one theory dealing with the role of power elites in developing the political structure of a country was provided by C. Wright Mills, in his book published in 1956, *The Power Elite*. Mills (1956) contends here that the national government of the United States was controlled by neither the people nor by business, but by a power elite which combined the resources of the business, military and political elites of the country. Mills divided this power elite, based

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$^2$ The Ismailis are the only Muslim business community working in the geographical area which later became Pakistan. Members of this group also have a business presence in Calcutta and Bombay.

$^3$ For example, the Jahangir Saddique Group, Schon Group and Best Way Group have been operating in the corporate sector for more than 30 years and now are among the top in the list of industrialists.
on American society, into three strata, political, corporate and military, and provided a
detailed analysis, specification and reasoning for dividing elites in these strata.

There is no doubt that this theory was a breakthrough in power elite analysis and can be
considered as a revolutionary contribution to the discipline of political science. However,
a gap can be seen in Mills’ theory, in terms of its ability to generalize in the context of
developing countries. And, in the more contemporary period, many other factors play a
role in determining how a group obtains power, subsequently emerging as a power elite;
and, in some cases, old elites can lose power.

In the case of Pakistan, this study intends to cover the gap in the literature about the rise
of power elites, as well as their fall in some cases, by applying key aspects of power elite
theory. While political, business and military groups exist in Pakistan, there are other
important elite groups that have shaped the political system and the economy. On the
basis of a detailed historical political analysis of power elites in Pakistan, this study will
provide insights into this developing country’s complex power structure.

The literature indicates that when conducting an analysis of power elites of any country,
the study must be customized according to its conditions and policies. Mintz, Freitag,
Hendricks and Schwartz (1976) reviewed the two most common methodologies of social
background investigation and decision-making analysis when conducting a study of
power elites and argued that both these approaches, if used alone, cannot capture the full
picture. Social background analyses do not take into account the possibility that
individuals may not, in all cases, represent the social groups from which they are
recruited. Decision-making analyses fail to investigate the process of policy formulation
and therefore cannot identify which groups control government institutions. They
recommended that researchers pay close attention, while doing power elite research, to
theory construction and creation, with an expression of that theory based on specific
government policies and customized to factors that reflected the context of that region. In this study, certain extensions to the form of theorizing adopted by elite theorists are proposed to present a more nuanced view of Pakistan’s power structure.

In research conducted on the influence of power elites in Pakistan’s governance system, numerous studies argue that multiple elites constituted core elites. For example, Rashid (1978) concludes that the power structure was quite consciously devised by two major elite groups, i.e. landlords and the industrialists. Kukreja and Singh (2005) were of the view that the military-bureaucratic elite were the core controllers of governance and the political and landlord elites had always played the role of second fiddle. Scholars like Zaidi (2005), Akhtar (2009), Talbot (2009), Siddiqa (2007) and Hussain (2010) held the common view that the bureaucratic and military elites were self-nominated guardians of the state at the time of independence. With time, political parties were created, abolished and transformed under the shadow of these two elite groups. Hence, whether it was civilian rule or during a military regime, these two elites have long been the pillars of the state.

This study thus raises the question: where do corporate elites fit in this system and how did their relationship with these two core groups, which have a dominant presence in the state, change over time? This study intends to explore this relationship between state-linked and corporate elites and its changing nature under different regimes. Similarly, the role of the other power elites in the corporate sector and in politics, which are vital in designing the relationship between state-linked (military, bureaucratic and political party) and corporate elites, will be assessed. These topics are well researched the world over. The works merit mention include Schneider (2004) for Latin America, Gomez (1990, 2002, 2009) for Malaysia, MacIntyre (1992) for Indonesia, Bunkanwanicha (2009) for Thailand, Ledeneva (2006) for Russia, McEachern (1991) for Australia, Culpepper
(2010) for Europe and Japan and Grant (1987) for Britain. In South Asia, studies in this field include that by Kochanek for India (1974), Bangladesh (1993) and Pakistan (1983). However, how business groups develop relationships with continuously changing elites in different regimes and what role other power elites play in this development have not been studied in Pakistan. This is the breakthrough novelty of the current study, i.e. to highlight the business and politics links in Pakistan in the context of all eight regimes from 1947 to 2012. In Pakistan, studies on the links between politics with business have been done regarding economic and industrial concentration – by White (1974), Amjad (1976) and Rehman (1990) – and on power elites – by A. Hussain (1976) and I. Hussain (1999) – but no study has analyzed the rise of corporate elite under different regimes of this elitist state.

Due to geo-strategic positions adopted by the superpowers following the Cold War and in the post-1989 period in Pakistan, the United States has had an active presence in the region, while international financial institutions and multinational companies (MNCs) play a significant role in this developing economy. The presence of international actors in Pakistan’s economy has contributed to its development and growth. Nevertheless, 35 per cent of Pakistan’s population still live below the poverty line, while major spatial problems exist, with serious structural under-development of rural areas. These problems draw attention to serious inequities in Pakistan’s pattern of development.

One reason for such inequities is the collusions – and contestations – between power elites in Pakistan. To trace the outcomes of these collusions on the economy, an in-depth assessment is provided here of business groups in the corporate sector. These business groups have sustained their high level position in the corporate sector on the basis of their contacts with other power elites. Their high position as top business groups have also been shaped by the contestations occurring between power elites, while they too play a
key role in determining political and economic outcomes. The power elites in business, politics, the military, religious groups and foreign institutions have had extensive direct and indirect control over the economy. The elites who have captured control of the state use political office to ensure distribution of government rents in a manner that they or development (Shafqat, 1999).

When elite theories are applied in the case of Pakistan, the concept of power elite needs to be extended to include more categories of analysis. The usual power elites discussed by scholars of political science like Pareto, Mosca, Mills and Domhoff are political, corporate and military. However, when analyzing the power structure of Pakistan from a historical aspect, four other groups need to be included. These are Religious elites, Landlord elites, Bureaucratic elites and International elites.

**Religious elites** can be defined as a particular social group whose emergence is a product of social necessity as there is hardly any system of belief that does not comprise a group of individuals forming a class of “the selected few,” whose task is to provide leadership in that aspect (Abdul Rahman, 2008). Being trained in religious sciences and theology, this elite is revered by the community as having the competency to deal with matters pertaining to religious beliefs, rituals and ethical codes. Religious elites are those groups and parties that have a strong presence in politics and can influence public policy decisions. They influence Pakistan’s corporate sector directly or indirectly by either having a presence on the board of directors of some companies or by claiming the authority to sanction the “halalness” of products of particular business groups that are distributed in the open market.

**Landlord elites** are those who can influence the business and political situation on the basis of their strong control and presence in a certain areas of Pakistan. Their major corporate presence is in Baluchistan and west Punjab, a reason also for the existence of
regional elite influence in that area. In West Pakistan, two economically powerful groups are the landlords and the business groups. Political power has come to be concentrated in these two groups (Maniruzzaman, 1966).

**International elites** refer to the strong impact and presence of foreign government institutions and policies on the business and politics of Pakistan. They constitute primarily the United States, IMF and World Bank. Pakistan has also been influenced by the international political strategies of Saudi Arabia and Iran, including in the context of the immense financial support provided by these two countries to the religious elites of their aligned sects. On the other hand, India had always been involved attempts to sabotage the sovereignty of Pakistan. India’s four wars with Pakistan are clear proof of this.

**Bureaucratic elites** are the key administrative officers in the civil service (LaPorte, 1975). Pakistan, from the beginning, has been controlled by bureaucrats, with the appointment of Liaqat Ali Khan as the first Prime Minister. The first Governor-General of the country was also a member of the civil service. Given the powerful contribution of civil servants to policy-making and their ability to influence how politicians perform their work, numerous scholars consider this a major and powerful institution in Pakistan’s political system.

Mills’ corporate elites did not include international investors or Americans who had control of MNCs. Mills’ focus was on corporate elites who had significant ownership and control of the US economy, though during the 1950s their role as investors abroad, particularly in developing economies, was not as pronounced as it is today. But for developing countries like Pakistan, the case is different in that American MNCs have a major economic influence while the US government also has influence over the politics of this country in a manner that can shape how domestic business groups evolve. Berle and Means (1932) explored in their book, *The Modern Corporation and Private Property*, 10
the evolution of big businesses, through legal and economic lens and argued that in the modern world those who legally have ownership over companies have to be differentiated from those who control them. Later, Domhoff (1967), in his book, *Who Rules America*, employed Berle and Means’ concept of ownership and control in his investigation of the corporate structure of America, specifically to trace the flow of power, through elite-based networks of the country.

But the current study does not only aim to determine the role of elite collusions on regime change; rather, it also indicates how these regimes which were changed due to elite contestations had an effect on the performance of the corporate elites. Here, the impact of regime change on the state and on business groups is re-conceptualized. In this study, the issue of regime change refers to a shift in the political system, particularly in terms of the nexus between the ruling elite and key business groups in the corporate structure. For example, during first ten years after 1947, although the Pakistani state had seen different elite groups in power, they were subservient to a bureaucratic-led political system, a reason this was called the First Bureaucratic regime. Later, a power shift occurred, from the bureaucracy to a military-led government, from 1958 to 1968 which had a bearing on the rise of new business groups. To analyze these issues, it was necessary to historically trace the changing structure of ownership and control of the business groups under civilian and authoritarian regimes.

For such a history, in the literature related to ownership and control, the scholars can be divided into two fields. First, those who argue that in firms there exist a separation of ownership and control; Berle and Means are the main scholars of this school of thought. They argued based on the data set of US corporations that ownership of capital is dispersed among small shareholders; however control is concentrated in the hands of managers. Later, scholars like Domhoff (1977), Useem (1980) and Durand and Silva
(1998) proved the importance of separation of ownership and control among business groups in many countries. Even among the largest firms in the United States, Morck, Shleifer and Vishney (1988) showed a modest concentration of ownership. Scholars like Jilberto and Hogenboom (2007), Leff (1978), Carree et al. (2002) and López de Silanes, La Porta, and Shleifer (1999) worked on a large dataset of firms in many countries and proved the deep nexus between ownership and control. The aim of this study is to determine the corporate ownership structure in Pakistan under different regimes and how business groups were affected by the change in regimes. For this purpose, scholars like Williamson (1964), Marris (1964), Jensen and Meckling (1976), Fama and Jensen (1983a, 1983b), Holmstrom (1988) and MacNeil (1985) are important as they emphasized the effect of changing regimes on the ownership structure or property rights of firms and considered this to be a political aspect of the control pattern. All these theories are analyzed when reviewing the control of private business groups in Pakistan.

Lastly, the analysis cannot be complete without an analysis of the mechanisms followed by these private firms to secure political connections to rise in the corporate world under different regimes. For this, scholars like Faccio (2006), Schnieder (2009), Bunkanwanicha and Wiwattanakantang (2009), Bertrand et al. (2007) and Boubakri et al. (2008) have done impressive work over the last twenty years. In this study, Faccio’s theory is employed to understand the political business connections of big business groups with ruling elites.

To sum up, this research broadly aims at analyzing power reconfigurations that occurred in Pakistan under different regimes and the role of power elites in them. This study will also trace how regime changes contributed to the rise and fall of key enterprises in the corporate sector as well as the consequences of this on the economy. Consequently, this study will focus on exploring how the structure of power among elite groups has changed,
with the emergence of new power elites. This study intends to identify major epochal events as well as the key decision-makers who played a major role in the evolution of the power structure. The role of various power players in shaping the corporate, economic and political landscape of the country will also be assessed.

1.3 Problem Statement

The primary focus of this study is to trace the impact of power reconfigurations in Pakistan, including through continuous elite collusions under different regimes, on the development of the corporate sector. Numerous researchers have proved that major industrial and financial assets are controlled by top business families, also known as the business groups. In 1968, Mahboob ul Haq declared that 22 families owned significant ownership and control of the industrial, insurance and banking sectors. His list of the top seven corporations were the Saigols, Habib, Dawood, Colony, Adamjee, Crescent and Valika groups. His analysis provided much informed insights into the political economy of Pakistan in the 1960s.

This scenario heightened concerns among economists of the massively uneven distribution of wealth which could lead the country to bigger problems, thus hampering the course of sustainable development all together. Later, White (1974) argued that 43 families or groups controlled 98 per cent of the 197 non-financial companies, accountinfor 53 per cent of the total assets. Hussain (1985) provided more figures, i.e. that 43 families represented 76.8 per cent of all manufacturing assets (including foreign and government assets). But the ranking of these business groups among the top 20 families kept changing under different regimes.
Rapid reconfigurations of power during regime shifts have contributed to major changes among the leading corporate figures. This state of affairs prevails even now, owing to constantly changing collusions and contestations between power elites of the military, political parties, bureaucracy, feudal landlords, religious groups and foreign forces. There is also a need to analyze how corporate elites deal with each other and other power elites when major political changes occur. This is due to the fact that power struggles in the political arena have created serious inequities in the country’s pattern of development. Keeping in view the stated nature of this study, the following research queries and objectives have been formulated.

1.3.1 Research Questions

i. What is the nature of the collusions and contestations amongst power elites in Pakistan in different regimes?

ii. How have regime changes, which have reconfigured collusions among power elites, affected the key business groups?

1.3.2 Research Objectives

i. To trace epochal events of Pakistan’s political history when reconfigurations of power occurred and had an important bearing on the development of the corporate sector.

ii. To examine the changes that occurred in the performance of key business groups under different regimes in order to understand the impact of political connections on the corporate sector.
1.4 Case Studies Selected for Analysis

Over the last two decades, researchers have focused much attention on the role of big business groups on the economy and public policies. Scholars like Carney (2011), Chandler et al. (1999), Chang (2006) and Schnieder and Maxfield (1997) have written extensively about such collusions and how they can undermine an economy and public policies of countries in both the developed and developing worlds. What kept researchers inquisitive about business groups was the ability of these enterprises to obtain an oligopoly, and in some cases even a monopoly, and with such economic power influence the political and economic conditions of a country. This was broadly covered by Khanna and Yafeh (2005), though even they argue that further research is required in this area.

Studies of business groups focus on issues such as the pattern of their diversification. For example, studies have discussed how business groups are profitable (Khanna & Palepu, 2000; Khanna & Rivkin, 2001) and how they alter their diversification plan over time (Khanna & Palepu, 2000; Kim, Hoskisson, Tihanyi & Hong, 2004; Kim & Yi, 2006; Kosacoff, 2000). This needs to be studied by considering the ways in which the governments of developing countries have supported the creation of business groups by providing them opportunities for diversification (Lee, Peng & Lee, 2008) or by inducing the mode of transformation of these conglomerates (Ahlstrom, Young, Chan & Bruton, 2004). Institutions have multiple dimensions, involving political, legal and economic factors. They are closely connected and mutually reinforcing (Whitley, 1994). Therefore, institutional transitions may manifest themselves in diverse patterns due to different dimensional changes and at different speeds.

Changes in the institutional environment may negatively affect the business group (Carney & Gedajlovic, 2002; Carney, 2011) though group affiliation may reduce negative outcomes (Wang, Huang & Bansal, 2005). Business groups may also influence changes
in the institutional environment (Chang, Chung & Mahmood, 2006; Luo & Chung, 2005), although such changes may not have the consequences that were initially intended (Hoskisson, Johnson, Tihanyi & White, 2005). All this will help generate contextualized knowledge that contributes to a better understanding of firm behavior (Tsui, 2004). Therefore, in this study of Pakistan’s corporate sector, the case studies of business groups are done from an institutional context. The performance and decisions of the business groups are evaluated from their date of incorporation till 2013, to identify the role of government in their performance and in the strategic decisions they have taken.

This thesis is divided into four analytical chapters. To deal with the collusions between power elites in Pakistan, a historical analytical technique is employed. Here, secondary data, related to scholarly articles, news reports, economic surveys and public policy reports, were extensively reviewed. Key events have been highlighted, specifically those that have played an epochal role in crafting the reconfiguration of power with each regime change. This analysis is divided regime-wise for each power elite, as the events do not happen in isolation and they lead to each other; as a result, a shift of power occurs from one ruling elite to the other (Hertz & Imber, 1995). In the second part of the analysis, the second research question, which covers the link between these different regimes and the rise and fall of key business groups, is answered. For this analysis, seven business groups have been selected as case studies, on the basis of certain criteria. As discussed previously, the literature indicates that scholars indicated that a small number of key big business groups had obtained control of the corporate sector. These business groups are outlined in Table 1.1.

4 The criteria for selection will be discussed in detail in the Methodology chapter.
TABLE 1.1: List of Big Business Groups, 1950 to 2012

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<td>Hashwani</td>
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Table 1.1 shows that business groups like the Habib Group have sustained their high ranking in the corporate world for over six decades. However, other companies such as the Adamjee group completely vanished from the list of the top business groups. And, as Table 1.2 also indicates, new names have emerged in the corporate world and are
becoming the leading enterprises of the economy. There are other interesting points that Table 1.2 indicates:

1) business groups that emerged in the early years of Pakistan’s history have survived till now, even sustaining nearly the same position in the corporate sector;

2) business groups that were major enterprises in the early days of Pakistan have declined with time. They are now not considered prominent companies; and

3) groups which can be considered as the “new rich”, that is those that either emerged lately or have been in market from the time of Independence but were then rather small-scale firms. They, however, have now emerged as prominent market leaders.

For the case studies, seven business groups were selected as they had unique characteristics.5 A detailed financial analysis was done of publicly-listed companies owned and controlled by these seven business groups. These business groups own publicly-listed companies as well as private limited firms, both of which are registered with the Security and Exchange Commission of Pakistan (SECP). One group, which is the biggest financial sector-based group, was selected as a benchmark case study, to compare the performance of other struggling groups, either old or new, with a business groups which was well established before the creation of Pakistan. This enterprise is Habib Group, with more than 100 public and private listed companies. Other than the Habib Group, the groups selected as case studies are listed in Table 1.2.

5 The detailed criteria for the selection of these groups will be discussed in Chapter 4, when the methodology is reviewed.
TABLE 1.2: Six Groups Selected as Case Studies

| Started Small & Expanded | | Started Big but Declined | | New Rich |
|--------------------------|---|-------------------------|---|
| Packages | 1961 | 17 | Kohinoor | 1951 | 50 | FFG | 1985 | 15 |

A thorough study of the change in the performance of these business groups from the date of their incorporation helps provide a comprehensive view of the impact of political connections under different regimes on them. The analysis will not only define the lines of the power configuration and its impact on the changing pattern of performances of these top business groups but will also outline the epochal events affecting corporate development in general.

In this way, the key power elites of each regime who have been influential and played an active role in shaping the power structure of the country will also be highlighted. Moreover, the purpose is also to provide insights as to which type of regime will favor which kind of business group and how to use them for economic development of a country.

1.5 Significance of Study

The primary significance of this study is to trace the epochal events in Pakistan’s political history, shaped by power reconfigurations, which in turn affected the development of the corporate sector. The study will be conducted by segregating and categorizing the power configurations and re-configurations, regime-wise, and deciphering the shift in the then ruling government from military to a civilian regime and vice versa. The study intends to establish a nexus between all the power elites in each political regime and the business
groups. The resulting ruling power elite, i.e. in terms of their control of the government, is actually determined on the basis of the struggles that occurred among different elite groups in each regime. This sort of analysis will also provide insights into how these seven groups have remained the major power elites of Pakistan.

The primary interest of this study is to evaluate the rise of different business groups of Pakistan under each regime as they also provide insights into the shortfalls in the political system which reassigned power into the hands of a minority, hence resulting in the absence of holistic growth and development of the country even after a long span of 65 years. The big (influential) families of Pakistan have been over-analyzed. Mahboob-ul-Haq has rightly referred to those 22 families as “a symptom, not a cause”. The literature now needs to analyze corporate sector development from the time of Independence to determine the major factors that have shaped the flow of power among these elites.

The significance of the study is not just to provide a historical analysis of corporate sector development of Pakistan, under the control of several power elite groups. It is also to pinpoint the actual contributors at each epochal moment in time which had crafted Pakistan’s power structure.

The other significance of this study is the time-frame covered that will be analyzed. Political reconfigurations have had an impact on the corporate sector from Independence in 1947 till 2013. For this reason, the business groups studied are from their date of incorporation. The oldest business group data belongs to the period of 1947 to 2012. There is no study in the literature that has provided this type of financial data, i.e. of public-listed companies of the selected seven key business groups. The data was taken personally from the record rooms of the Karachi Stock Exchange; this includes data of annual records of sixty nine public-listed companies of selected seven business groups, which was done individually and manually. This study, with this data, would certainly
provide information about these business groups which is useful for future researchers in this area of study. This study also presents statistical analyses which explain in great depth the reasons for the rise of each business group under different regimes. This study provides not only a meta-analysis of secondary qualitative data but also a ratio and statistical analysis of the financial data of the selected business groups.

1.6 Organization of Study

Chapter One introduces the research by reviewing Pakistan’s history with reference to the concept of power elites. This chapter also provides brief insights into the power structure and the nexus between its elites and business groups. The research questions, objectives and significance of this study are outlined here.

In Chapter Two, a review of the relevant literature is provided. The literature review is done around the three themes belonging to three different disciplines, i.e. elite contestations (politics), change of ownership and control under different regimes (corporate governance), and political connections (political economy).

Chapter Three introduces the conceptual model and theoretical framework behind the study along with the pattern of analysis followed in the conduct of this study. Chapter Four traces the development of different power elites under different political regimes. Chapter Five explains the emergence and sustainability of corporate elites in different regimes as a result of the nexus developed by other power elites. Chapter Six analyzes in detail the performance of the seven business groups under different regimes to understand empirically the effect of elite contestation on these enterprises. Chapter Seven provides a comparative analysis of all seven business groups. Chapter Eight concludes this thesis with the key theoretical and empirical contributions and recommendations for policy makers. This study ends by briefly outlining future areas of research.
CHAPTER 2: LITERATURE REVIEW

This chapter reviews the literature relating to the impact of power structures on regime change, as well as the implications of the regime change for corporate development, focusing specifically on Pakistan. In light of the focus on power configuration in Pakistan, the literature review follows three major themes:

1) The impact of power elites on the transformation of regimes in developing countries, and in Pakistan in particular;

2) Ownership and control changes among big businesses under different regimes;

3) The political connections of big business groups in South Asian countries, specifically Pakistan.

Theme one

2.1 Power elites and transformation of regimes in developing countries

The concept of elite theory was introduced by Vilfredo Pareto and Gaetaro Mosca in the nineteenth century, in response to Marxist theory. These elite theorists can be classified as classical and modern. Some classical theorists and their major thematic contributions are Pareto (governing and non-governing elites); Mosca (ruling class and the class that is ruled); and Robert Michels (the need for leaders, specialized staff and facilities, the utilization of facilities by leaders within their organization, and the importance of the psychological attributes of the leaders). Pareto is famous for his 80/20 principle in which
he talks about the ability of 20 per cent of the people to control 80 per cent of the wealth (Reed, 2001). Mosca argued that politics dominates all spheres of society and that elites tend to congregate in the political spheres (Zuckerman, 1977). Later, Michels provided the concept of the “iron law of oligarchy” which indicated how a small group of people could eventually run all the political parties, primarily for their own interest (Cassinelli, 1953; Michels, 2003). Another theorist worth mentioning is Thorston Veblen, who built on the Marxist approach and considered society to be characterized by conflict. His aim was to identify where power was situated and from where it originates (Veblen, 1978, 2007).

In brief, classical elite theorists argued that elite rule is an evitable and desirable feature of social existence. Power elite theorists argued that elite rule is a remediable and regrettable feature of social existence. Classical theorists like Pareto and Mosca accepted and projected it as a system needed to run the social structure of society, but power elite theorists such as Mills (1956) and Dahl (1957) were of the view that it supports only the uppermost elites of society who are interconnected and work for their own vested interest. Within this process the masses do not receive any benefits from the socioeconomic structure which they are developing.

Looking at elite and power theories, it is evident that all relevant scholars from Pareto (1939) to Burton and Higely (1990) have ideas resulting from their study of the power system of developed countries. However, these theories and the classifications of power elites do not apply to developing countries. This is because developing countries have a different historical precedence, economic condition, class structures and ethnic complexions. Religious and cultural patterns also differ. In order to understand the complexities of the power configurations in these countries, one has to understand and study the nature of collusions and contestations among the power elites who exist in these.
areas. For this purpose, Pakistan was selected as a case study as it is a context where the triangulations among a variety of power elites exist in a manner which does not prevail in developed countries. Such triangulations of power among elites (religious, landlord, and bureaucrats and international) exist primarily in developing countries. They are very much not present in developed countries and thus are not considered to be core among power elite theorists. Where they do prevail, they have been referred to as “interest groups”. From the perspective of a developing country, these power elites have significant strength and are able to bring about major policy changes.

To summarize, in the development of elite theories, the typology is as indicated Table 2.1 which briefly explains the contribution of different scholars and the countries they studied. Pareto, Mosca, Aron and Mills identify and distinguish between elites and masses. For Mills, elites have power by virtue of their location in three linked key institutions (structures) in society: political – dominated by the executive power of the Federal Government; the economic – dominated by a few hundred corporations; and the military. Mills rejects both the class struggle advocated by Marxists and the pluralist picture presented by Dahrendorf, arguing that what reflects the American system of power is “a moving balance of many competing interests” (Mills, 1956: p. 289).

**TABLE 2.1: Typology of Elite Theories**

<table>
<thead>
<tr>
<th>Scholar</th>
<th>Types</th>
<th>Countries</th>
<th>Basis of classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pareto (1935)</td>
<td>Demographic, Plutocratic</td>
<td>Italy</td>
<td>Cartel of elites which leads to military demagogic</td>
</tr>
<tr>
<td></td>
<td>(Theory of circulation of elites)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mosca (1939)</td>
<td>Feudal Society, Bureaucratic society</td>
<td>Italy</td>
<td>Feudal society based on heredity &amp; military valor &amp; bureaucratic society based on wealth</td>
</tr>
<tr>
<td></td>
<td>(Theory of Ruling Class)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Author</td>
<td>Title</td>
<td>Region</td>
<td>Example</td>
</tr>
<tr>
<td>-----------------</td>
<td>------------------------------</td>
<td>-----------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>Michels</td>
<td>Iron Law of Oligarchy</td>
<td>Italy</td>
<td>Based on indispensability of oligarchy from the organizations</td>
</tr>
<tr>
<td>Aron (1950)</td>
<td>Western and Soviet elite</td>
<td>Europe and Soviet Union</td>
<td>Geographic positioning</td>
</tr>
<tr>
<td>C.W. Mills (1956)</td>
<td>Political, military and corporate (Theory of Power Elite)</td>
<td>USA</td>
<td>Three elites occupy the power apex</td>
</tr>
<tr>
<td>Domhoff (1967)</td>
<td>Government, non-government</td>
<td>USA</td>
<td>Banks &amp; corporations dominate the American power structure</td>
</tr>
<tr>
<td>Dahrendorf (1959)</td>
<td>Authoritarian, totalitarian, cartels and liberal elites</td>
<td>Germany</td>
<td>Based on German regime change and its implication on World War.</td>
</tr>
<tr>
<td>Putnam (1976)</td>
<td>Consensual, competitive, bonding capital &amp; bridging capital</td>
<td>USA</td>
<td>Political regimes of multiple developed countries</td>
</tr>
<tr>
<td>Higley and Burton (1990)</td>
<td>Integration and differentiation</td>
<td>Europe</td>
<td>United and disunited elites impact on regime transformation</td>
</tr>
</tbody>
</table>

2.1.1 Transformation of Regimes and Power Elites

In the past two decades, the study of political elite transformations has been used by socio-political analysts to answer questions relating to the different types of political elites who craft different political cultures in countries which are similar in population size, economic development level, class structures, ethnic complexions and religious and other cultural patterns. Among independent nation states, there are distinctly different political practices. Once a particular type of elite is created in a country, this elite strongly tends to persist. A profound crisis or another abrupt event is required to trigger elite transformation. When such transformation occurs, a new elite type and political practice emerges.
The “political elite”, as defined by Burton and Higley (2001), are the several thousand persons who hold top positions in large or otherwise powerful organizations and movements and who participate in - or directly influence - national political decision-making. They include not only the familiar “power elite” triumvirate of big business, government and military leaders, but also top position-holders in parties, professional associations, trade unions, media, interest groups, religious, and other powerful and hierarchically structured organizations and sociopolitical movements (p. 182).

Scholars today are interested in measuring the relationship between economic and corporate development and political regime change. Scholars have developed complex theoretical models focusing on economic and corporate changes within authoritarian regimes. Authors such as O’Donnell and Schimitter (1986a, 1986b) and O’Donnell (1973) argue that economic crises, in conjunction with specific historical conditions, serve as a trigger for breaking a democratic system. Other scholars oppose this view and argue that economic crises can be used to transition towards democracy (Acemoglu & Robinson, 2005; Chilcote, 1990; Huntington, 1993; Shin, 1994).

However, these different schools of thought agree that changes in the economic and corporate situation of a country have a direct or indirect relation with regime change. Regime change has been studied in terms of broad structural factors that were thought to be conducive to either an authoritarian or democratic system. The most widely studied factors can be categorized into five dimensions: 1) socio-economic conditions; 2) socio-structural conditions; 3) political culture; 4) characteristics of political institutions; and 5) political and economic conditions.

In defense of socio-economic conditions, scholars such as Deutsch (1961), Lipset (1959), Lerner (1958) and Burkhart and Lewis-Beck (1994) linked these conditions to economic development or "modernization," including the level of per capita income, the extent of
literacy and education, the degree of urbanization and the quality and extent of communication media. They argue that these factors are closely related to the level of economic development. Countries undergo a gradual inexorable transition from authoritarianism to democracy as their economies develop. In the same context, authors have argued that capitalist economic development creates a growing social pressure for democratization by fostering the emergence of a middle class (Lipset, 1959), bourgeoisie (Moore, 1966), or a working class (Rueschemeyer, Stephens & Stephens, 1992) who seek access to state power.

The authors who advocated socio-structural conditions as the reason for regime change suggested social homogeneity, low or moderate inequality, a relatively even distribution of power among societal groups and overarching loyalties or cross-cutting cleavages as factors that facilitate democracy (Dahl, 1973; Lijphart, 1977; Muller, 1995; Vanhanen, 1990). The third group of scholars stressed the importance of a political culture where tolerance, trust, egalitarianism and willingness to compromise were preconditions for democracy (Almond 1980; Diamond 1993).

Scholars who consider regime change to be the result of the characteristics of political institutions and consider it to be a transition that can help consolidate democracy have focused on the following factors: the extent of institutionalization (Huntington, 1968), consociation arrangements (Lijphart, 1977), coherent (non-fragmented) party systems (Mainwaring, 1993) and parliamentary rather than presidential systems (Linz, 1994; Elgie, 2007). Huntington (1965, 2006) noted the importance of political institutionalization and its application in authoritarian regimes, although here consociational arrangements, a non-fragmented party system structure, electoral rules and the type of executive system are largely irrelevant.
Finally, some authors have identified international political and economic conditions that may affect political regimes, including colonial legacies (Collier, 1982; Weiner, 1987), economic dependence (Bollen, 1983; Gasiorowski, 1988; Gonick & Rosh, 1988), relationships with superpowers (Gasiorowski, 1991; Muller, 1985), the "demonstration effect" of democracy in neighbouring countries (Huntington, 1993) and other aspects of the international environment (Gourevitch, 1978; Jackson & Rosberg, 1982; O’Donnell & Whitehead, 1986). While empirical studies have shown that these structural factors significantly affect political regimes (Arat, 1999; Cnudde & Neubauer, 1969; Hadenius, 1994; Vanhanen, 1990), these theories of regime change are based on structural factors and can only explain the factors which facilitate the regime change. They do not consider the processes that actually bring about regime change and therefore cannot fully explain its causes (Rustow, 1970). While structural conditions create a context for regime change, they cannot explain the precise timing. For this, the actions of leaders and elites must be considered. These processes, typically involving coups d’état that result in military rule or mass protests, lead to democracy and consist of the strategic behavior of political actors embedded in concrete historical situations (Przeworski 1986).

Much of the work on regime change focuses narrowly on "strategic behaviour" (Di Palma, 1990; O’Donnel & Schmitter, 1986; Kitschelt, 1992), but a much larger body of literature examines "concrete historical situations" that affect such political transitions. Therefore, in this thesis, a historical analysis of events, triggered in conjunction with certain structural factors, is applied with reference to the effects of these regime changes on corporate sector performance, taking elitist state philosophy as a background condition.

Modern elite theorists and their major themes include C. Wright Mills (political, economic and military elites); Floyd Hunter (real holders of power, official position holdings); G. William Domhoff (who wins, who governs, who benefits); James Burnham
(scientific analysis of elites and politics); Robert D. Putnam (power shifts from entrepreneur to technical specialists); Thomas R. Dye (public policy and elite consensus); and George A. Gonzalez (U.S. economic elites’ shaping of environmental policies). Meanwhile, Foster and Holleman (2010) and Shaxson (2012) draw attention to financial power elites and Williams (2006), in the context of Britain, notes that the British power elite comprises political leaders, professional elites and financial/corporate elites; these are core issues in this study of Pakistan’s power elites.

In a broader sense, elites are those individuals in society who are at the “top” in their particular fields. Thus, the categories of political, administrative, martial, industrial, commercial and intellectual elites have to be considered. The major interest of power elites is in the realm of public policy, which is developed and refined by them through informal collectives, formal meetings, special planning agencies and foundations, and are then pressed upon the relevant governmental agency or agencies (Domhoff, 1970; Schwartz & Wade, 1972; Swartz, Turner & Tuden, 1972). The pressure is made operative in a variety of ways, of which the most sinister is direct contact with government officials and/or the seeking of high government positions by members or representatives of the corporate elite (Mizruchi, 1982). For Domhoff (1998), Kolko (1969), Mankoff (2014) and Miliband (1969), the policies adopted by governments are precisely those favored by these elites. Mills (1956) analyzes the social background of these power elites and argues that their common social background facilitates their capacity to influence decision-making. For example, Mintz and Schwartz (1985) found that nearly 90 per cent of those who had served in presidential cabinets since 1897 had close ties with either economic or social elites. In the case of Pakistan, a similar nexus between the political, economic and social exists who serve as members of the national assembly and the senate.
A recent study by Pakulski (2010) has drawn attention to the concept of global elites. He identifies three emergent global (at least partly “denationalized”) classes: transnational corporate professionals and executives and top state executives. Other scholars have been writing extensively in their endeavor to define the elites at the global and country levels and the nexus between these two groups, in an attempt to understand the implications of the impact of these two groups on each other (Domhoff, 1970; Husain, 2000; Kumar, 2003; Mintz & Schwartz, 1985; Pinches, 1997; Rostow; Zald & Lounsbury, 2010). One aspect of this thesis is to investigate this nexus, with particular reference to Pakistan. In the process, the role of Pakistan’s power elites in terms of their contribution to persistent political instability and how this affects the country’s corporate sector is also analyzed.

A limitation of power elite theories to be applied in all contexts, and in particular to the context of developing countries, has been identified. While the theories presented by Mills (1956), Dahrendorf (1959) and Putnam (1976) are a breakthrough in power elite analysis and can be considered to be a revolutionary contribution to the field of knowledge, as critics have noted, difficulties are encountered when applying this analysis to research power elites. It is this theoretical gap that this study will attempt to fill, through an assessment of power elite groups in a developing economy such as Pakistan. Seven types of power elites which exist in Pakistan will be discussed, with reference to the literature. However, the main contribution of this study is a consideration of which among them should be considered to be the true power elite in each regime, and of how they emerge and sustain themselves. Relatedly, this study will address how, when they were contesting and colluding with each other, one group among them (i.e. the corporate elite) was able to maintain their position.
2.1.2 Power Elites in Pakistan

In the literature on power elites in Pakistan, one study which provides a comprehensive sociological analysis of this issue is that by Asif Hussain, published in 1979. His study, *Elite Politics in an Ideological State*, argues that “in Pakistan, the state was not ruled by a permanent oligarchy but at any point in time was under the control of an elite group, who, by horizontal or vertical alliances, could keep others from dominating it” (Hussain, 1979). In 2004, Ishrat Hussain, the former Governor of State Bank of Pakistan, wrote *Pakistan: The Economy of Elitist State* which confirmed the existence of a number of elite groups in the economy. However, since he conceptualized his book in rather macro-economic terms, he provided no details of the origin and development of these power elites.

Talbot (2009) is also of the view that Pakistan has strong characteristics and traits that allows it to be classified as an elitist state. Given Pakistan’s colonial legacy where the bureaucracy ruled, the government was centralized. However, Pakistan had strong regional identities, an issue which led to ethnic-based discourses and the emergence of local elites. The ruling (national) elites always used the system of collaboration with the local elites to safeguard any emerging threats of a no-confidence vote against the government.

Hussain (1979) divided the elites into six groups: Landowning Elites (LE), Religious Elites (RE), Military Elites (ME), Bureaucratic Elites (BE), Industrial Elites (IE)\(^6\) and Professional Elites (PE). According to Hussain (1979), LE and RE have their background in traditional institutions, originating from the epoch of the Mughal and Islamic rulers;

\(^6\) What Hussain (1979) has referred to as “Industrial elites” is considered as “corporate elites” in this study.
hence, they are also referred to as “Traditional elites”. The ME and BE have their origins in the colonial period when the British government gave rise to these two institutions; they are thus known also as “Colonial elites”. The last two groups, IE and PE, are referred to as “Emergent elites”.

If studied in depth, Hussain’s (1979) classifications are logical as he described these elite groups during the time frame of 1947 to 1971. During this period, the elites could easily be classified under these groups. But the story changed after the separation of East Pakistan from the country and the introduction of the nationalization policy in 1972. What followed was quite an interesting and unique blend of these elites and their roles in the state’s power arena, issues that will be dealt with in-depth in this study.

The relationship among these key elite players shaped a complex power structure in Pakistan. Numerous power centers, simultaneously active and usually at loggerheads, strove to protect their interests to secure better deals and occupy more economic and political space. Moreover, the solidarity or clash of interests among various power elites also resulted in the formation of new alliances, weakening or eradicating the previous or existing ones in due course. This shift in relationships between diverse power centers has led to different elites combining forces to shape the direction of major potential policy shifts. The power centers in such power games can be named as the ruling or “power” elite; commonly referred to as the “establishment” in Pakistan. In order to understand the power structure of Pakistan, a detailed analysis of the nexus involving various power elites who played a role in structuring the politico-economic system needs to be studied.

The political system of Pakistan is characterized by an intermittent breakdown of the constitution and political order, weak and non-viable political institutions and processes, rapid expansion of the role of the military and bureaucratic elite, military rule and military-dominated civilian governments, and authoritarian and narrow-based power
management (Rizvi, 2005). In the absence of a stable politico-economic structure, the nexus between various power elites kept evolving as internal and external events occurred and as strategic actors changed. The changes in relationships among diverse power centers have resulted in variations of politico-economic spaces occupied by these power players during different periods.

The major issue with the analysis of the power structure of Pakistan is that the state apparatus and the political structure are explained using concepts employed in the analysis of politics in the United States or other Western democracies. In power elite studies, the core theories are developed based on the structure of developed societies. Therefore, when applied to the unique historical background of countries like Pakistan, these theories are not able to address the complex issues of such societies. Thus, there is the need to re-theorize those theories in their contextual aspect.

When studying Pakistan’s power system, there is a need to investigate the significance of the class structure in the development of power elites. Considering Pakistan’s history, one finds that class enforcement has been a prominent feature since the early days of the power structures, and that the role of class enforcement in these structures has evolved over time. Javid (2011) drew attention to the influence of class when reviewing institutional development in Punjab, a province with 55 per cent of Pakistan’s total population. The study noted the rise of different fractions in the province’s landowning class, which increasingly entrenched themselves within the political order in the postcolonial epoch (Javid, 2011). He argued that the power of notable landowners (derived from their landownership) has allowed them to bargain with authoritarian regimes for state patronage, while reinforcing their dominance in mainstream politics through different political institutions. Due to the country’s history of colonial rule,
Pakistan is a state with a pluralistic presence of power elites controlling the decision-making system of the country.

Numerous studies blame Pakistan’s capitalist structure for this conflict between classes, particularly between landlords and the industrialists (Rashid, 1978). Kalim Siddiqui (2011) did a comparative analysis of capitalism in India and Pakistan and concluded that capitalism has failed, in comparison to India, to reduce poverty and inequality, and that this is because of Pakistan’s elite-dependent economy and other internal ethnic issues. His analysis of pre-colonial, colonial and post-colonial regimes and power elite conflicts provides insights into why Pakistan fared worse than India in terms of reducing poverty. He paid particular attention to Pakistan’s economic dependence on donors and international agencies and indicated his concern that funds from these institutions were not employed for their intended purposes (Siddiqui, 2011).

Researchers have worked on assessing the role and influence of power elites in Pakistan (Husain, 2000; Hussain, 1976; Hussain, 1979; Javid, 2011; Kochanek, 1983; La Porte, 1975; Maniruzzaman, 1966). In this context, the work of La Porte (1975) merits mention. La Porte provides systematic information about elites in Pakistan and their influence over decision-making processes by presenting his study on the basis of political regimes from 1947 to 1973. During the same period, Lawrence White (1974) noted that 43 families or groups controlled 98 per cent of the 197 non-financial companies, accounting for 53 per cent of the total assets in Pakistan. White (1974) analyzed the economic and non-economic effects of industrial concentration and the bearing that this had on political power and income distribution. Issues such as religion, class, ethnicity, technology, demography, geography and the “demonstration effects” of the politics of other countries have also had a bearing on elite relationships and on the forms of political regimes (Higley & Burton, 1989).
Hussain (1976) presented a model of the power structure in Pakistan. In this model he divided elites into six groups: Military elites, Bureaucratic elites, Religious elites, Landowning elites, Industrial elites and Professional elites. In his study of Pakistan’s elite structure, he concluded that a country’s survival was not dependent on geographical boundaries but on the desire of ethnically-based political elites for political unification. Focusing on the power nexus analysis of Pakistan, there is a convincing argument for applying the three sources of power, as advocated by Mills, when developing theory about the case of Pakistan. The strength of this argument lies in the influence of the military on the state and the ability of the military to shape the evolution of key political, religious, industrial and bureaucratic institutions. Zaidi (2005) argues that social groups and classes who normally favour democracy due to their personal gains have already had access to the power nexus of Pakistan. Therefore they are not concerned about the sustainability and quality of democracy.

Rehman (2006) provided details of the assets of 22 families and the influence of these families on political decision-making. This work is primarily a report on the total assets of these business groups and on how they use political connections to seek loans and other benefits. But, this study does not explain the events and epochal moments which helped these business groups develop close associations with ruling elites. Further, the time-series development of these groups of companies is not presented. Data relating to the total assets of the business groups is available for 1998 only. In order to understand how this figure has changed over time, annual financial data is needed.

Hussain (2000) discusses Pakistan’s economy and the way in which it has been influenced and crafted by elites. However, Hussain does not focus on the role of corporate elites in the crafting of this economy. In his review, Zaidi (2000) argued that Hussain’s work presented the view of an economics scholar who was a senior World Bank official.
Hussain’s historical analysis of Pakistan’s political economy and the impact of the decisions taken by elites is comprehensively analyzed, and in the process he suggests that he does not believe in the state’s public commitment to promoting democracy. Hussain (2000) does not consider the era of the 1990s to be a period when democracy was flourishing in Pakistan. According to his arguments the state was merely "muddling through," with no clear vision or interest in the consolidation of democracy. The main thesis of Hussain’s study is that less than one per cent of the population had captured control of key institutions of the state and of the market. In his review, however, Zaidi (2000) argued that this was not a true and complete representation of Pakistan’s political economy. Rather, Zaidi maintained that the range of elite groups was more diverse and that some of them had brought development to the economy (as it served their interests to do so); this development also benefited much of the population. Therefore, these studies clearly present a gap in the literature, where a research which captures the range of all elite groups influencing the political economy of Pakistan is required. The relationship between these elite groups must be understood in order to understand how the leading business groups grow or fall with each regime change.

Studies assessing power relationships in Pakistan either focus purely on the political reasons for this power distribution or on other core factors that influence power and governance issues (Ali, 2004; Noman, 1990). Niaz (2009) argues that in the 60 years after independence from British rule, the behavior of state elites and the political class has become more arbitrary, proprietorial and delusional. By “arbitrary” he meant the inability of the bureaucrats and Pakistani rulers to understand the imperatives of the structural and operative autonomy, with the consequence that the state has been converted into an instrument of personal rule. He attributes the failure of state reforms under consecutive regimes to the delusional thinking of the country’s rulers, and their erroneous belief that
they have proprietorial rights over state resources and an inherited right to use state resources for their own benefit.

A research gap exists as none of these studies have focused on corporate elite power and the role played by industrialists in power reconfigurations in Pakistan. These studies mention multiple factors which have influenced the country’s political system and can be considered to be major factors which shaped power relationships. However, none of these studies have looked at the issue of power relationships through the lens of big business groups’ rise and fall, and their role in the power reconfigurations which have occurred with each regime change. The research presented here will analyze the collusions involving all power elite groups, with particular focus on corporate sector development.

Taha (2012) argues that the major reason for political instability in Pakistan is the incompetence, lack of vision, will and capability of political leaders. He concludes that for this reason the performance of military regimes has been better than that of civilian regimes. However, his analysis is narrow and he does not discuss in detail the reasons which have held back the country’s economic progress, despite its access to resources and its strategically important geographic position. He considers Pakistan to be a failed state, and argues that if such trends remain long-term, there is little hope for the country’s recovery. He concludes that “Pakistani society and politics is an amalgamation of elites, pressure groups, army, families and huge mass of deprived people, which has hardly any parallel in the world” (Taha 2012, p.57). There are numerous forces which can be considered in this analysis of elite groups. What needs to be determined is which power elites have been more active within Pakistan under different regimes and how corporate groups, as a unit, safeguarded their rights and position through the selective patronage provided to them by ruling elites. This was important because, with regime change, these
same corporate groups encountered problems maintaining their influence in the corporate sector.

**Theme Two**

### 2.2 Ownership and control of big businesses under different regimes

The second area of our interest is the literature regarding the corporate controls of large modern corporations and how this ownership structure changed under different political regimes. Scholars from sociology have followed two directions: firstly, they have been interested in detecting a capitalist class and discovering the nature of its cohesion (Zeitlin 1974; Useem 1984). Alternatively, they have tried to use organizational theory to account for the structure of the relations between large-scale business organizations (Mizruchi, 1989; Burt, 1989; Mintz and Schwartz 1985; White 1981; Fligstein 1990; Baker 1990).

Nevertheless, scholars from economics were concerned about the possible negative effects of the separation of ownership from control on maximizing profits (Williamson 1964, 1985; Marris 1964; Jensen and Meckling 1976; Fama and Jensen 1983a, 1983b; Holmstrom 1989; MacNeil 1985). The scholars of both disciplines have accepted the effect of changing regimes on the ownership structure or property rights of the firms and consider this to be a political aspect of the control pattern.

The political and economic transformations underway in the countries of Eastern Europe, the former Soviet Union and China provided scholars with a unique “natural experiment” for studying changes in the institution of property rights\(^7\). Studies by Schroeder (1988), Kornai (1990), Weimer (1997), Batt (1991) and Comisso (1990) identified the changing of the property rights system as an essential element for meaningful reforms. Such efforts

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\(^7\) Property rights, the relation among people concerning the use of things, lie at the nexus of economics and politics. The state as maker and enforcer of formal rules, plays a fundamental role in shaping the property rights system. The property rights system may effect political stability through its impact on the creation and distribution of wealth.
are continuously taking place in order to better understand this phenomenon under different political circumstances. This study is also an attempt to contribute to this discourse by measuring the impact of changing political regimes on the property rights situation in Pakistan and the strategies corporate elite follow to deal with these changing property rights. Roe (2000), being an agency theorist, considers property rights to be an outcome of an efficient process, but Fligstein (1996) considers it to be a continuous and contestable political process. In his opinion, organized groups from business, labour, government agencies and political parties try to affect the constitution of property rights.

Nonetheless, Evans et al. (1985) and Porter (2000) agree with the notion that states are important for the formation and ongoing stability of the business environment, but the nature and degree of this importance is a matter of context. Some states have greater capacities for intervention than others, and the likelihood of intervention depends on the nature of the situation and the institutional history of the state. As Fligstein (1996) stated: “Property rights define the relation between an economic elite and the state. Corporate elites struggle to keep states from owning property, but they want states to enforce property rights. States differ with regard to their rules for cooperation and competition. Some allow extensive cooperation between firms, particularly in export markets (e.g., Germany), while others restrict the ability of firms in similar industries to cooperate (e.g., the United States)”.

### 2.2.1 Separation of Ownership and Control

Domhoff (1977) proved that ownership and control in American society are separate. He analyzed class conflict within society on the basis of this separation which was initially proved by Berle and Means in 1932. He followed the work of Berle and Means (1932), in which they analyzed American companies in detail and proved the separation of
ownership and control. Subsequently, much work was done on this topic, such as that by Fligstein and Brantley (1992). Useem (1980a) focused in general terms on the corporate elite who he defined as “the men and (the few) women who are in a position to exercise major influence over the decisions and policies of these large companies”. He argued that the corporate elite was becoming stronger over time due to their commitment to capital accumulation. Moreover, the corporate elite possessed a degree of internal integration, particularly within the dominant stratum, which was unmatched by any other social class. Their strong cohesive power helped them enter into relationships with other businesses on the one hand and the government, health, education, etc., on the other.

Useem (1986) analyzed large corporations and the rise of business political activity in the United States and Britain. He also observed the separation of ownership and control in those firms and showed the influence of these power elites on political decision making. He based the definition of power elite on the one given by Mills in 1956, but introduced the actions of the “inner circle”. Useem defined “inner circles” as those business leaders who took a more active role in the promotion of their politics. He differentiated the inner circle from other corporate elites based on two factors; first, the inner circle’s multiple company connections placed its members in exceptionally powerful positions within the corporate community. Second, the connections they made generated a degree of social cohesion (Useem, 1980b). This topic was researched using the dataset of Latin American and other developing countries.

Similarly, Durand and Silva (1998) studied the link between organized business relations and democracy. Their analysis was on the proliferation of the highest expression of business’s organizational development and organized business’s participation in policy processes. Maxfield and Schneider (1997) worked on business and state relations in developing countries and interpreted the nature of these ties in nearly a dozen developing
countries by varying the conception of business as capital, sector, firm, association and network.

2.2.2 Concentration of Ownership and Control

Much good work is being done by researchers analyzing the process of economic concentration in transition economies, recording also the response of the private sector of developing regions of Asia, Latin America, Africa and Central and Eastern Europe (Jilberto & Hogenboom, 2007; Leff, 1978; Carree et al., 2002). López de Silanes, et al. (1999) worked on the data of large corporations in 27 wealthy economies and demonstrated that ownership and control are not separate in these corporations. In fact, these corporations are typically controlled by families or the state. This research was a breakthrough in the field of Ownership and Control analysis. Porta, Lopez de Silanes and Shleifer (1999) argue that Berle and Means’ (1932) work was primarily based on American corporations and therefore did not depict the true nature of ownership concentration around the world. They concluded that in countries with poor shareholder protection, the controlling shareholders have control over firms via a pyramid structure. The top management is generally part of the controlling family, which gives them the power to confiscate the shares of minority shareholders (López de Silanes et al., 1999).

Claessens, Djankov and Lang (2000) examined 2980 corporations in nine East Asian countries and found “in all countries, voting rights frequently exceed cash flow rights via pyramid structures and cross-holdings. The separation of ownership and control is most pronounced among family-controlled firms and small firms. More than two-thirds of firms are controlled by a single shareholder. Managers of closely held firms tend to be relatives of the controlling shareholder's family. Older firms are generally family-controlled, dispensing the notion that ownership becomes dispersed over time. Finally, significant corporate wealth in East Asia is concentrated among a few families”.

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More recently, one study focused on the role of political connections as a major reason for the prevalence of such ownership and the control structure in these nine countries of East Asia. The study demonstrates that while the format of ownership and control in these countries remains almost the same, supremacy remained with family-owned firms. The major change was that, with the passage of time in nearly every country, state ownership - both domestic and foreign – had increased (Carney & Barclay Child, 2012). The study maintained that where countries underwent major political transformations, this transformation could best account for the aforementioned changes in corporate control and ownership.

### 2.2.3 Ownership and Control Structure of Pakistan

In Pakistan, the issue of industrial concentration was first raised by Mahbub-ul-Haq in 1968. He found that in 22 families owned 66 percent of the total industrial assets, 70 percent of insurance and 80 percent of banking (Haq, 1976). This was later supported by studies by White (1974) who reported that 43 families or groups controlled 98 percent of 197 non-financial companies, accounting for 53 percent of the total assets, and by Hussain (1985) who reported that 43 families represented 76.8 percent of all manufacturing assets (including foreign and government assets). When such figures were presented in the literature, research interest grew about tracing the reason for this concentration.

Hanna Papannek (1972) argued that the historical setting of the business was a major factor which contributed to economic power being concentrated in a minority of hands, and pointed out that this is a source of major political controversies. A recent study by Burki & Qureshi (2012) similarly maintains that family firms are a major form of business in Pakistan and emphasize that with the poor governance structure, the separation of ownership and control is not possible in such firms.
In this field, much of the work is done from a corporate governance perspective. A study by Javid and Iqbal (2008) examined 60 firms in Pakistan from 2003 to 2008 and agreed that in Pakistan businesses tend to be family-owned or state-owned, and that there is no separation of ownership and control among firms.

In the context of political economy, corporate concentration analysis as a power concentration medium has not been studied. Therefore, this thesis will investigate the relationship between business ownership and economic development, using the expansion in corporate sector/business ownership as a proxy of economic development. Therefore, a review of the literature needs to be done in this aspect. One study done in 2002 on 23 OECD countries proved that there is a U-shaped relationship between business ownership and economic development (Carree, et al., 2002). It is argued that the lower barriers to business entry and exit are a major condition for any country to seek equilibrium in this U-shaped structure for sound economic development. This presents a challenge when analyzing the position of Pakistan’s business ownership in the U-shape and to identify policies which foster long-term economic development or which are leading towards disequilibrium in this state. This study is not providing an argument for the ideal ownership structure of business in Pakistan for future economic development.

Its focus is to understand the effect of the changing pattern of ownership structure on the corporate decisions of the leading business groups. Specific attention is given to the use of state patronage and political connections by these business groups which shaped the current economic and corporate structure of Pakistan. This serves as a guide for predicting the future patterns of development and the strategies which the government needs to follow to safeguard long-term economic development.
Theme Three

2.3 Political Connections of Big Business Groups in South Asia

In research of business groups, multiple definitions have been employed when describing these enterprises. Carney, et al. (2011) conducted a meta-analysis of business groups to identify their key features, as well as the core concepts required for an assessment of the development of these enterprises. These issues are crucial for determining a proper definition of business groups. According to Khanna and Rivkin (2001), business groups are firms which, though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated action.

The study of business groups can be complex in nature, which is clearly indicated in the now large literature on this topic. However, as for definitions and the key features of business groups, three points of consensus are apparent in this body of work. First, business groups are ubiquitous in many countries with types such as the Japanese keiretsu and zaibatsu (Gerlach, 1992), the South Korean chaebol (Chang, 2003), Latin America’s group economics (Strachan, 1976), Hong Kong’s hong (Wong, 1996), India’s business houses (Encarnation, 1989), Taiwan’s guanxiqiye (Numazaki, 1996), Russia’s oligarchs (Perotti & Gelfer, 2001) and China’s qiye jituan (Keister, 2000), each emblematic of these nations’ enterprise system.

A second area of consensus is that business groups are structurally different from conglomerate organizations, described by Williamson (1975) as “H and M” forms. The coordination of a portfolio of firms in a conglomerate takes place through a unified internal control system (Davis, et al., 1994). In business groups, coordination relies on a more complex web of mechanisms such as multiple and reciprocated equity, debt and commercial ties (Gerlach, 1992) and kinship affiliation between top managers (Granovetter, 2005).
A third widely-held position is that business groups owe their predominance in many countries to the existence of market failures and poor-quality legal and regulatory institutions (Granovetter, 2005). In this view, business group formation has taken place in these contexts in order to internalize transactions in the absence of reliable trading partners or legal safeguards to guarantee transactions between unaffiliated firms (Khanna & Palepu, 1997; Leff, 1978).

Despite these points of consensus, disagreements fueled by ambiguous research findings are apparent in relation to the general question of whether or not the net economic and social effects of business groups are positive (Fisman & Khanna, 2004; Keister, 2000). Such disagreements are evident in the characterizations of business groups by scholars as either “heroes or villains” (Claessens, et al., 2000a), “paragons or parasites” (Khanna & Yafeh, 2005), “red barons or robbers barons” (Perotti & Gelfer, 2001), and “anachronisms or avatars” (Granovetter, 2005). Specifically, a lack of consensus exists about four key issues regarding business group performance and strategies. First, researchers are divided regarding the performance implications of business group affiliation (Claessens, et al., 2006; Khanna & Palepu, 2000b). While some scholars theorize that the net effect of these affiliations on profits is positive, others argue that it is negative for some or all firms and each can point to empirical evidence to support their position. Researchers using exchange theory (Keister, 2001), transaction cost analysis (Luo & Chung, 2005; Mahmood & Mitchell, 2004) and the resource-based view (RBV) of the firm (Guillén, 2000) find that affiliation enhances performance (Almeida & Wolfenzon, 2006; Chang & Hong, 2000). Yet others have found that these potential advantages are often not realized due to various offsetting costs of affiliation (Claessens, et al., 2006; Lee, et al., 2008). A third group of scholars found that the relationship between affiliation and performance is not universal, and that some firms within a
business group benefit at the expense of others (Bertrand, et al., 2003; Khanna & Yafeh, 2005). The effect of affiliation on performance therefor remains an open question.

Second, uncertainty also exists regarding the institution-level variables which moderate the affiliation–performance relationship. The prevailing viewpoint is that business group affiliation most benefits firms in developing contexts which are characterized by voids in hard (i.e. telecommunication and transportation) and soft infrastructure (i.e. legal and financial systems) (Khanna & Palepu, 1997; Fisman & Khanna, 2004), but the evidence on this point is inconclusive. In a study of business group affiliation in fourteen emerging economies, Khanna and Rivkin (2001) found that affiliation is beneficial in six countries, detrimental in three others, and ineffectual in the remaining five countries. Khanna and Rivkin (2001) concluded that the performance effects of business group affiliation resist any simple normative categorization and that a definitive understanding of their effects in various national contexts must await further data collection and empirical inquiry.

Third, while many studies have examined the performance consequences of affiliation, there is a shortage of research examining the strategies of business group affiliates. As a result, there is little evidence on the issues of whether the strategies of affiliate firms are different from non-affiliated firms, and if so, whether these distinctive strategies affect the relationship between affiliation and financial performance. A clearer understanding of affiliate strategic behavior may therefore shed new light on the ambiguous findings regarding the profit impact of business group affiliation.

Fourth, the evidence concerning business group performance has primarily been drawn from studies at the affiliate rather than the group level (Chang & Hong, 2002; Luo & Chung, 2005; Mahmood & Mitchell, 2004). This is of concern because some of the main
theoretical arguments suggesting superior business group performance emphasize their aggregate scale and scope efficiencies. For instance, it is widely argued that the performance advantages of business groups are a function of their market power and capacity to wield political influence (Fogel, et al., 2008; Claessens, et al., 2000b). Similarly, Khanna and Palepu’s (1999, 2000b) core argument also relates to the group level of analysis, as the success of business groups in emerging markets is attributed to their ability to mimic market institutions. Thus, there appears to be a dispute in the business group literature between theories which emphasize group-level phenomena and empirical studies which examine performance at the affiliate level. In short, there is broad agreement among scholars that business groups are a phenomenon of great theoretical and practical importance, but key points of contention and ambiguity remain regarding their financial performance and strategies.

In one study, Cuervo-Cazurra (2006) defined business groups in a very detailed way, covering their sociological and economic aspects. In this study, the definition of a business group is this: it is a set of legally-separate firms with stable relationships operating in multiple strategically unrelated activities and under common ownership and control. Cuervo-Cazurra (2006) further divided business groups along three lines: as family owned, widely-held and state-owned.

Of these types, this study will only follow two types: family-owned and widely-held business groups. Business group from among state-owned types were not selected as the aim here is to assess private sector corporate elite collusions. For consistency, the definition of family-owned business group’s structure is employed, as one where individuals or families are involved in the ownership, control and management of these Pakistani business groups; this is the definition given by Cuervo-Cazurra (2006). In contrast to other business groups, there is no separation of these roles among Pakistani
firms. Although in some cases professional managers run these firms, these groups are closely controlled by the family. Widely-held business groups are defined as those where no distinct majority shareholder exercises control. Ownership is dispersed among many shareholders, each of whom does not have a controlling stake. Managers are professionals who control decision-making. These managers are appointed by the board of directors, which is in many cases controlled by the managers. Other firms, either industrial firms or financial entities, may own large blocks of shares.

Studies on business groups focus on issues such as their diversification process. For example, studies have discussed how business groups are profitable (Khanna & Palepu, 2000a; Khanna & Rivkin, 2000) and how they alter diversification over time (Khanna & Palepu, 2000b; Kim, et al., 2004; Kosacoff, 2000). Family business studies focus on analyzing how family type (e.g. one founder, founder and children, later generations, multiple families) and family dynamics (e.g. succession, death, marriage, and divorce) affect business group diversification and performance. Although there exists some literature on family ownership and firm performance (e.g. Anderson & Reeb, 2003b; Villalonga & Amit, 2006), insights from these studies of US publicly-listed firms may not apply to family-owned firms outside this country (Filatotchev, et al., 2005; Maury, 2006) or to family-owned business groups because the latter are privately-owned and diversified.

There has been inadequate focus on the performance of business groups within institutional contexts which in turn affect the behavior of these enterprises. In poorly developed markets with low governmental provision of public goods and services, such features induce firms to diversify, apparently a key characteristic of developing countries (Khanna & Yafeh, 2005). However, what needs to be studied are the ways in which the contextual characteristics of a country support the creation of business groups, including
by providing opportunities for diversification (Lee & Park, 2009) or by inducing the transformation of business groups (Ahlstrom & Bruton, 2004). Institutions have multiple dimensions, including political, legal and economic factors. They are closely connected and mutually reinforcing (Whitley, 1994). Therefore, institutional transitions may manifest diverse patterns due to different dimensional changes at different speeds.

As changes in the institutional environment may negatively affect the business group (Carney, 2005; Carney & Gedajlovic, 2003), so too might group affiliation reduce the negative impact (Wang, et al., 2005). This suggests that business groups may also influence changes in the institutional environment (Chung, 2005), although such institutional changes may not have the consequences that were initially intended (White, 2004). All this will help generate contextualized knowledge that contributes to a better understanding of firm behavior (Tsui, 2004).

Therefore, the case studies of the business groups in this thesis pay close attention to the institutional context of Pakistan. An attempt is made to evaluate the performance of these business groups from their date of incorporation up to 2012. This mode of evaluation is also undertaken in order to determine the role of the government in the performance of these business groups.

2.3.1 Business Groups and Power Configurations

The involvement of big business groups in politics has also been one area covered by researchers. One reason for such intense research in this area is that it helps identify the reasons for the dynamism of private companies which are promoted by the state or why firms fail to demonstrate an entrepreneurial capacity. Gomez (2009) analyzed this topic with reference to Malaysia, reviewing the rise and fall of big businesses in this country. His previous work on this topic also pointed out the importance of party factionalism on
business development and proved that political patronage had repercussions on the corporate and financial sector (Gomez & Jomo, 1999; Gomez, 2002, 2009).

Such studies also examine the methods firms use to obtain state favors: business owners themselves participate in elections for top political office. One study on this was conducted by Bunkanwanicha and Wiwattanakantang (2009). This study measured the entrance of big business owners in politics in Thailand, and demonstrated that businessmen enter politics in order to empower themselves and implement public policies which are advantageous for their firms, giving them an edge not only over domestic competitors but also foreign investors (Bunkanwanicha & Wiwattanakantang, 2009). Kohli (2008) worked extensively on state business nexuses in India, analyzed through the politics of liberalization in 1989. Through this method, he explained the role of the media business in the Indian economy (Kohli, 2008).

The involvement of business in politics can also be viewed in the way government policies promote and sustain certain types of business groups. Schneider (2009) covered this aspect, focusing on developing countries, and pointed out that the reasons for state interference in business groups had changed with time due to the terms of their interaction with banks, MNCs and state enterprises. He argued that the efforts by Asian and Latin American governments to promote domestic business are often a result of geopolitical concerns and nationalism (Schneider, 2009).

Political connections are defined in various ways in the literature. For example, Faccio (2006) recognizes a firm as politically connected if at least one of the firm's largest shareholders or top officers is a member of parliament, a minister, a head of state or is closely related to a top official. Fan et al. (2007) define a Chinese firm as being politically connected if the CEO is a current or former officer of the central government, local government or the military. Bertrand et al. (2008) consider a firm in France to be
politically connected if its CEO attended elite schools and was employed as a civil servant or had a government position. Ferguson and Voth (2008) consider firms to be politically connected if their executives and supervisory board members were close to the ruling party. Boubakri et al. (2008) consider a firm politically connected if at least one member of its board of directors or its supervisory board is or was a politician.

The incentive for corporations to become politically connected has been recognized among economists for many years and by citizens of affected countries for many more. As economists have noted, rents from the state can take various forms, including preferential treatment by government-owned enterprises (such as banks or raw material producers), lighter taxation, preferential treatment in competition for government contracts, relaxed regulatory oversight of the company in question, or stiffer regulatory oversight of its rivals. However, as emphasized by Shleifer and Vishny (1994), corporate elites benefit from their access to state rents when the marginal benefits of the connections outweigh their marginal costs which the business had to pay for establishing such connections. Politicians create and maintain state-owned banks not to channel funds to economically efficient uses, but rather to maximize their own personal objectives.

A large body of empirical work has demonstrated that firms with political collusions enjoy exceptional access to government loans and, for this reason, are more likely to resort to excessive leverage during decision-making about the financing of their business activities (Desai & Olofsgård, 2011; Faccio, et al., 2006; Fan et al., 2007; Ye et al., 2012; Fisman, 2001). This view supports a positive relationship between a business group’s political collusions and the degree of financial leverage (Claessens, et al., 2008; Li, et al., 2008; Saeed, 2013). Nevertheless, there are studies indicating the inverse, or a complete lack of relationship between political collusions and leverage (Asquer & Calderoni, 2011; Bunkanwanicha, et al., 2008). In light of such diverse findings, it is difficult to draw a
definitive conclusion regarding the impact of collusions and networking on a firm’s financial leverage.

Extensive anecdotal evidence indicates that influential firms maintain banks as offshoots of their businesses. Studies focusing on the Pakistani context argue that private banks in general and government banks in particular appear to extend loans based on personal ties rather than on the basis of collateral and future cash flow. Financial institutions such as Habib Bank are famous for providing non-repayable loans to industrialists (Khawaja & Mian, 2009; Saeed, 2013).

2.3.2 Political Connections of Business Groups

Over the last couple of decades, researchers have focused on the development and role of big business groups on economic conditions and public policies. Chandler (1999) explains how the dynamics of big business have influenced national and international economies (Chandler, et al., 1999). The literature on business groups can be divided in two. One area of this literature studies business groups in the context of diversified entities and the other are studies business groups within the context of corporate governance. Shleifer's (1998) work can be said to be the first major contribution from the corporate governance aspect which was later supported by López de Silanes et al., (1999). However, what kept researchers inquisitive about business groups was the ability of business groups to attain monopoly power and influence the political and economic conditions of a country. This was broadly covered and raised for further research by Khanna and Yafeh (2005).

In the case of emerging economies, researchers focus on the relationship between political power structures and the emergence (and continued existence) of business groups.
(Encarnation, 1989). Groups are viewed as counter-productive rent seekers that destroy rather than add value (Ghemawat & Khanna, 1998). This view highlights the disproportionate diversion of scarce resources toward business groups in lieu of their cozy relationship with the political establishment, mostly at the cost of the larger population. In the context of Pakistan, White (1974) argues that the acquisition and maintenance of economic power requires the existence of significant scale economies barriers and scarce resources barriers. White suggests that the scarce resource barriers created by the government of Pakistan in the form of foreign exchange licenses, investment licenses and licenses to import capital goods, raw material, spare parts and consumer goods from abroad helped business families and groups take root and consolidate during the 1950s and later gained dominance in the 1960s.

Recent research incorporates some of the above approaches and provides mixed to supporting evidence. For example, Khanna and Rivkin (2001) examine the impact of group affiliation on financial performance (measured as operating returns/assets) of firms in 14 emerging economies in Asia, South Africa and Latin America (the sample does not include Pakistan). After controlling for firm and industry fixed effects, they find that the mean of the estimated group effects is positive (and statistically significant) in four countries, and negative (and statistically significant) in one country only. More importantly, Khanna and Rivkin find that group membership explains a higher variation in profitability than the one explained by industry effects in 13 out of 14 countries. Chang and Choi (1988) focused on the group size effect and performance and found that the firms affiliated with the largest four Korean chaebols performed significantly better than the non-affiliated firms and firms affiliated with the small chaebols. Marisetty and Subrahmanyam (2010) find support for the “tunneling” hypothesis for explaining greater initial public offering (IPO) underpricing for firms affiliated with business groups than for non-affiliated firms in India.
Khanna and Rivkin (2000) argue that the within-country (as opposed to the cross-country) examination of business group phenomena is more reliable since the definition of a group, the consensus about the definition and the degree of tightness of control varies significantly across countries. Thus, this provides us the motivation to examine the question of group performance on an individual country level such as Pakistan.

In Pakistan, the top performing firms are mostly associated with business groups (Ghani, et al., 2010). The empirical evidence of studies show a positive to mixed effect on the performance of the firms associated with business groups (Chang & Choi, 1988; Keister, 1998; Khanna & Rivkin, 2001; Ma, et al., 2006; Perotti & Gelfer, 2001). Khanna and Rivkin (2001) define a business group as “...a set of firms which, though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated action.” The business groups in Pakistan (previously known as “twenty-two families,” hereafter named “The families”) are informal combinations of legally independent business entities run by families. The family patriarch is the dominant shareholder and manager, and immediate and distant family members help operate various firms within the business group. It is common for these family members to belong to the same religious sects or communities. Some examples of major business communities are the Chiniotis, Memons and Ismaelis/Aga Khan families with business origins (primarily trading, some in manufacturing) in parts of India, who later migrated to Pakistan (Amjad, 1976; Ghani, et al., 2010; Papanek, 1972; Rashid, 1980).

Bhutto nationalized banks on the basis that they had been the main vehicle for concentration of wealth, a view given currency by the fact that almost all of the big families of the pre-1971 era backed up their business with their own banks. Even the government’s banks and financial institutions were under the shadow of these families.
For example, National Bank of Pakistan was headed by M.A. Rangoonwala. Wahid Adamjee was Chairman of PICIC. Ahmad Dawood was a founder member of National Investment Trust and Vice Chairman of PICIC. According to White (1974), the top seven of the 13 banks nationalized in 1974 accounted for 60 per cent of bank deposits but if foreign and government banks were excluded from this list then their share amounted to 90 per cent of the total. Four of the top seven banks were owned by 22 families. These were Habib Bank (Habib), United Bank (Saigols), Australasia Bank (Colony) and Premier Bank (Arag).

Pakistan’s corporate sector is still controlled by local business groups which are primarily family-owned, and apart from the strong involvement of MNCs, the economy is deeply influenced by the local power elites, particularly the agricultural and industrial resource owners. However, Pakistan has also been deeply affected by the strategic decisions of the superpowers, especially those taken at the time of the Cold War and in the post-September 11 period; their impact on the country’s economy is evident. The presence of international actors in the Pakistani economy has contributed to its development and growth. To understand how these different political and economic actors, both domestic and international, shape the corporate structure, the research methodology selected here involves tracing the development of the nexus between all these power elites, specifically focusing on how their actions and decisions impact on the corporate elite.

Business networks substitute for reduced market share and hence add value to network participants (Leff, 1976). For example, Khwaja, et al. (2008) concluded that in Pakistan more than 5,000 firms are connected via a single network of interlocking boards and these firms gain access to financing. Network membership improves access to credit and the financial viability of member firms by a rate of 16.65 per cent. Membership decreases the firms’ propensity to enter financial distress by 1.7 percentage points.
A number of studies like Perkins et al. (2008) and Morck et al. (2005) show that family networks dominate emerging markets. Burkart, Panunzi and Shleifer (2003) argue that in environments characterized by poor property rights, family ties provide trust which makes it an effective alternative to contract enforcement. Further, several studies show that family ties shape corporate governance and performance (Bennedsen, Nielsen, Perez-Gonzales and Wolfenzon 2007; Bertrand, Johnson, Samphantharak & Schoar, 2008).

Unlike in the United States and Britain where the shares of firms are diffusely held, most companies in Asia are associated with one or several family members who tightly hold the shares; the same practice is followed in Pakistan. Claessens, et al. (2000) report these ownership characteristics in detail for a large sample of listed firms in nine Asian economies. The other reason for selecting business group-associated firms is the argument that larger firms are more politically active and firm size is an important antecedent of particular forms of corporate political activity. To determine firm size, multiple factors have been adopted by researchers, such as sales (Bhuyan, 2000; Hansen & Mitchell, 2000; Hart, 2001; Martin, 1995; Schuler, et al., 2002), assets (Meznar & Nigh, 1995), market share (Schuler, 1996) and number of employees (Bhuyan, 2000; Hillman, 2004; Meznar & Nigh, 1995). Much of this work continues the tradition of examining firm size and Corporate Political Activity (CPA) set by earlier works such as those by Boddewyn and Brewer (1994), Keim and Baysinger (1988) and Masters and Keim (1985).

Scholars continue to focus on firm size for a variety of reasons. The foremost seems to be that size is a proxy for resources and provides some indication of the firm’s ability to become politically engaged (Schuler & Rehbein, 1997). Size may also represent political (more stakeholders = more voters) and economic power (a large firm may capture many of the rents through public policy). For example, Hillman and Hitt (1999) assert that firms
with greater financial and intangible resources are more likely to engage in CPA alone while those with fewer are forced to work collectively with others. In a set of medium and small sized companies, Cook and Fox (2000) show somewhat surprisingly that the smallest were the most politically active. However, they also find smaller firms joining with others to participate in CPA, which supports Hillman and Hitt’s assertion regarding collective participation (Hillman, et al., 2004). In this study, firm size is measured by assets and the equity acquired; therefore, the ratios measured are returns-on-asset (ROA) and returns-on-equity (ROE).

The other variables which will be measured to see the influence on business group firms’ performance are the group’s product diversification (Schuler, 1998; Hillman and Hitt, 1999), foreign ownership (Getz, 1996; Hansen and Mitchell 2000), firm age (Hansen & Mitchell, 2000), reputation (Baron, 1995a; Boddewyn & Brewer, 1994; Keim & Baysinger, 1988) and experience or credibility (Hillman, 2003; Hillman & Hitt, 1999). These factors have been considered while measuring the change in a firm’s strategy under different regimes which also shows the extent to which a group has been politically active in a particular regime.

This study contributes to the literature by examining the impact of political ties on the performance of Pakistani firms associated with the big business groups. Pakistan is a particularly interesting case for studying this relationship for several reasons. First, because the use of political connections by business groups is a common practice in Pakistan and politicians tend to have significant influence in the corporate world (Khawaja & Mian, 2009; Saeed, et al., 2014). Second, the underdevelopment of capital markets, inadequate institutional support, and overarching governmental control and intervention create impediments for business. Consequently, establishing a close relationship with politicians in Pakistan or having direct political participation is taken as
an effective strategy for businesses to overcome market failure. Lastly, to curb political corruption, the Pakistani government undertook drastic steps. Importantly, the National Anti-Corruption Strategy (NACS) was introduced in 2002 with the aim of eradicating corruption from the political system. However, some recent, widely publicized political corruption scandals (Rental Power Projects, Pakistan International Airline case) cast doubts on the efficacy of such government initiatives. Arguably, such initiatives were not effective in stopping politicians from engaging in rent-seeking activities. Thus, it is worth examining the extent of political patronage within the Pakistani context, focusing specifically on the rise of big business groups under different regimes.

2.3.3 Business Groups in Pakistan

Papanek (1972) evaluated from pre-partition the influence of these big business groups on the Pakistan movement and how it has shaped the current capitalist structure of the country. She concluded that “few Big families have played an extremely significant role in economic as well as political terms, because of the extent of concentration of economic control in the hands of a few, the speed of industrial growth, and the high political visibility of the industrial-commercial family combines” (Papanek, 1972). Her study discussed the growth and development of the elite in Pakistan and showed a close relationship between the business industrial elite and decision-makers in government, based on shared interests (although not on an individual level). Her study had indicated that businessmen were securing political office in Pakistan. She identified a need to research the complex pattern of social, economic and political antecedents in Pakistan, as well as the implications of the growth of a business-industrial elite in order to evaluate the role of this type of collusion in a developing, postcolonial society, in whose history separatism had played a crucial role (Papanek, 1972).
Other important studies include that by Stanley Kochanek, entitled *Interest Groups and Development: Business and Politics in Pakistan*, published in 1983; it provided an analysis of interest groups. Ghani, et al. (2010) have been working on Pakistan’s business groups, from a financial perspective (see also Ghani, et al., 2008). They compared the financial performance of business groups and non-business group firms. They argued that business groups have an efficient institutional arrangement and that they had appeared to play a prominent role in the economic growth of the country (Ghani et al., 2010). However, their results are on the data of only two years (1998 and 2002), and as such cannot be considered to justify the influence of these business groups. The way in which the business groups have used their expansion to enter politics and their power to influence favorable policies have yet to be studied.

### 2.3.4 Business Groups in Politics in Pakistan

The involvement of the corporate elite in Pakistani politics directly or indirectly is evident. Referring to the corporate elite as “robber barons” in their studies, Maniruzzaman (1966) and Raman (2014) argue that while this might be considered a natural phenomenon, it should not be at the cost of a country’s prosperity. Along with socio-economic problems, Pakistan’s economy is seeing a massive distortion of its growth, while the business groups of the corporate elite are becoming bigger and wealthier. The cost of this increased economic strength needs to be analyzed.

Maniruzzaman (1966) reported that the first active impact of business groups on political change was in 1957, when Prime Minister Suaharwardy had to resign. This was due to the pressure of powerful business groups which had influence over government. As he put it: “the short-lived Chundrigar government (October 8-December 15, 1957) quickly surrendered to the business interests” (Maniruzzaman, 1966). Maniruzzaman provides
examples of the steel mill and shipping corporation controversies, the contestation between business groups of East and West Pakistan and the benefits taken by West Pakistan groups from East Pakistan business groups.

Later, Rehman (1998) also showed, and criticized, how these robber barons had controlled Pakistan over the years. Ali and Malik (2009) debated the influence of the state over business decisions, arguing that “the government determined the success or failure of any venture, and the key to a businessman’s success was his access to government channels.” They stressed that this evolution of the business and political system had led to a business-government relationship which is based on individual rather than collective actions.

This demonstrates a gap in the literature related to state capture by corporate elites. State capture provides advantages for a particular individual or groups in the basic legal or regulatory framework. Omelyanchuk (2001) did his PhD on state capture and its modes, particularly in developing countries. He used WB/EBRD studies to define state capture and referred to it as “the actions of individuals, groups, or firms both in the public and private sectors to influence the formation of laws, regulations, decrees, and other government policies to their own advantage as a result of the illicit and non-transparent provision of private benefits to public officials” (Omelyanchuk, 2001).

2.4 Research Gap

Based on the literature review, there are three important gaps in the themes reviewed above. The first relates to the applicability of western-based elite theories to developing countries which have a completely different context. This study intends to establish the types of state-business nexuses created by power elites of Pakistan. Power elite theory
has been criticized primarily on two points: one is its over-emphasis on the cohesiveness of power elites. However, the empirical data indicates that elites are fragmented and engaged in all kinds of contestations to preserve their own vested interests. Meanwhile, collusions among power elites can also have serious repercussions on their vested interests. Secondly, critics of this theory argue that it is not backed up with systematic studies of decision-making.

The second gap, obvious in the literature, is to determine the impact of elite contestation on the corporate sector where state-business nexus are the key feature. In countries like Pakistan, democracy has always been derailed by the military and the continuous shift of political context has created an uncertainty among corporate elites. Therefore, the way in which business groups survive such changing patterns and which strategies they follow to sustain their position in corporate world needs to be assessed. There is also a need to study epochal events that led to the promulgation of policies that shaped the mode of enterprise development.

The third gap found is the need to undertake financial analyses of the business groups in order to provide insights into state-business ties that inform regime change and power reconfigurations in Pakistan. In an attempt to address these gaps, this study focuses on collusions among all existing elites in Pakistan. The nature of elites differ and their role in politics and the corporate sector expands or diminishes according to the outcomes of power reconfigurations of the country. Pakistan has been considered an “elitist society” by many studies, such as Ahmad (1971), Ali (1988), Griffin, Massy, Conran and Craik (1990), Husain (2000), Hussain (1976), Hussain (1979) and Rehman (2006). Analyzing Pakistan’s power structure critically, this study presents seven power elites groups.

Focusing on the literature review, it is evident that in most countries, power lies with the state or with businesses. The power structure of Pakistan, though a well-researched area,
is silent on the issue of the nexus between power elite groups and corporate elites. There are no studies about how power reconfigurations impact corporate elites and the corporate sector. There are studies like those by Rashid (1978) who studied the industrial development of the business groups, but only from 1960 to 1970. Rehman’s (1998) work also argues that corporate elites own the major assets of Pakistan, but bases his argument on the financial assets of these corporate elites in 1996 only. How they developed these assets over time and how different regimes facilitated their rise to reach their current positions in the corporate world are not covered. White (1974) emphasized the issue of economic concentration of resources by the top business groups, but the issue of power configurations and their role in facilitating this process was not been handled by him. This doctoral study will be the first of its nature which analyzes power reconfigurations from 1947 to 2012 and the impact of such political changes on corporate elites. This assessment will be based on a systematic review of annual financial data released by publicly-listed companies owned by these corporate elites.
CHAPTER 3: THEORETICAL FRAMEWORK AND METHODOLOGY

3.1 Research Variables

As discussed in the first chapter, elite contestations involving multiple groups have been covered in many studies, though their focus can be categorized as those comprising three major power elites, i.e. political, corporate and military elites. This research argues, however, that in a study of the power structure of Pakistan, four more power groups need to be assessed. These seven elite groups have played a vital role in Pakistan’s political system. Without studying these seven elite groups in depth, the analysis would fall short of the facts of what had occurred during each regime change and which interest groups obtained control over decision-making in the country. These seven power elite groups are discussed below.

3.1.1 Political Elites

Political elites are those who hold strategic positions in large political organizations which enable them to influence political decision-making in the country directly, substantially and regularly. This definition is by now standard in elite studies, even though different scholars use different adjectives and adverbs to define such “proximate decision makers” (Putnam, 1976). To be sure, there are still scholars who use “elite” to denote much larger upper and middle strata of privileged people (Collier, 1982). Likewise, Vergara (2013) defined political elites as “a group of people, corporations, political parties and/or any other kind of civil society organization who manage and organize government and all the manifestations of political power”, while Higley (2008) contends that “elites may be defined as persons who, by virtue of their strategic locations
in large or otherwise pivotal organizations and movements, are able to affect political outcomes regularly and substantially.”

In Pakistan, people who can be considered as political elites can be differentiated depending on their location, in East and West Pakistan. In West Pakistan, political leaders were primarily big land-owners or princes of various degrees of mobility, while those of East Pakistan were more often lawyers, teachers or members of other middle class professions. The third group comprises those who had migrated from central India and consisted of some of the above-mentioned categories as well as a small contingent of industrial and commercial families (Binder, 1961).

Political elite means the top minority that rules, struggles for power, takes decisions and influences political conditions through their programmes and actions. According to Michel (1911), in spite of the presence of a modern democratic system and elections in voluntary political organizations, a few individuals can secure control of important offices in government. They use their control over these offices to consolidate their position in government.

Michel in 1911, calls this “the iron rule of aristocracy”. Due to this, even democracies can create a comparatively stable aristocratic group or elite. Later, Pareto in 1935, has noted that the present day political system has two types of elites, ruling and non-ruling.

3.1.2 Military Elites

Military elites emerged from colonial rule in the Asian subcontinent (Finer & Stanley, 2002). After independence and the early death of Jinnah, Pakistan was not able to implement properly its concept of a secular and liberal tradition on the basis of which it had emerged (Ziring, 1984). As an alternative, the powerful, even authoritarian, forces
were the only available sources that could run the country. In the system then prevailing in Pakistan, the two powerful sources were the landlords and the military. For the first forty years, there was a consistent change of ruling seats between members from these two groups. Afterwards, the third powerful force which had been playing a low key role came to the forefront, corporate elites, creating a tripartite contestation involving fairly equally powerful and influential groups.

Since 1947, the threat of invasion from India had made the civilian government very dependent on the military. The internal problems of ethnic conflicts, national language, even border smuggling encountered in Pakistan in its early years compelled the civilian government to use military forces to help control law and order. However, this call to the military strengthened its belief as Pakistan’s sole savior Pakistan and that its generals could run political and administrative endeavors in a much better way than democratically elected political leaders.

The first complete control by the military of government occurred in 1958; this institution retained power for ten years. Much infrastructure and economic development occurred in Pakistan during that decade, with the support of the United States. For this reason, this decade was considered the “Golden Decade”. Pakistan enjoyed its highest growth rates during this decade, a period during which much support was accorded to industrialists, a key factor that fostered rapid industrial growth (Zaidi, 2005).

The close cooperation between the military and the bureaucracy has been recorded by many scholars (Kamal, 2001; Rizvi, 1998; Sayeed, 1958; Shafqat, 1999). In their research, they note how this military government sheltered and nurtured industrialists in order to help them grow as they industrialized the economy; interestingly, an outcome of this collusion between the military and industrial groups was the promotion of their own
vested interests even as the economy generated growth (Kamal, 2001; Zaidi, 2005; Rizvi, 1991).

The focal point of this research is analyzing the outcomes of power transitions involving also the military elite, this group’s control over state politics and the factors contributing to its capacity to secure power on more than one occasion. When reviewing the first two military coups in Pakistan till 1988, the reasons behind them are relatively similar. In the first instance, other elite groups, particularly landlord elites, as well as the masses wanted the military elite to come in and control the political scene as bureaucratic elites were gaining more strength. In the second context, problems in society and among religious elites were used to justify a military coup, ostensibly to ensure stability in Pakistan.

How the state responded to the economy and the corporate sector during the respective tenures of military elites is in itself an interesting narrative. During all three tenures of military rule, GDP increased rapidly, economic stability was maintained and foreign relations were strengthened which helped draw in foreign investments. Given these positive outcomes, the masses were willing to accept prolonged military control of the country (Zaidi, 2005). However, within the military, numerous contestations occurred following the strategy of supporting political elites and other elite groups, particularly religious elites. Senior military officers have confessed that the military had played a pivotal role in creating and establishing the religious and political elite8.

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8 The former ISI head, General Hamid Gul, in a TV interview confessed that his institution had played a vital role in creation of the Islami Jamhoori Itihaad (IJI) which brought Nawaz Sharif to power along with a Religious elite, Qazi Hussain Ahmad, in the 1980s. See https://www.youtube.com/watch?v=CuqBU2bF-7o
3.1.2.1 Military in Business

Acemoglu and Robinson (2006) developed a model that proved the coexistence of change and persistence in institutions. Through persistence, they mean that some elites are able to shape politics in different regimes which they take as a change of political institution. The ability of elites to persistently control the political mechanism is referred to by them as “de facto political power”. The reasons they gave for this persistency are the incentives elites obtain by controlling those in power and by using them to distort the system for their own benefit. Their model helps provide an understanding of the reasons why, despite significant changes in political institutions from authoritarian rule to a democracy in Latin America, the Caribbean, and Africa and in Pakistan, one sees a surprising continuity in public policies (Acemoglu & Robinson, 2006).

In Pakistan, military involvement is not seen as only an institutional participant of the ruling domain. The military also has an active role as a key business figure in the corporate sector. Mani’s (2007) research on military entrepreneurship development and the impact this has had on state and society indicates that this institution’s participation in economic enterprise is harmful for military professionalism. On the other hand, these enterprises are quite durable because of Pakistan’s market conditions and the military’s ability to persist in an institutional setting (Mani, 2007). Mani’s study supports the model proposed by Acemoglu and Robinson about institutional persistence even within different political regimes.

Bhave and Kingston (2010) used Acemoglu and Robinson two-player theoretical model in which society is divided among rich elites and poor masses and introduced the military as a third player. According to them, a military coup can be prevented by democratic regimes with the support of the elite section of the civilian population. This is because the military would prefer not to rule over a disenfranchised population and depends
heavily on the support of elite groups to establish a new regime (Bhave & Kingston, 2010). It is evident that elections in Pakistan, particularly under military governments, have been dominated by the same traditionally powerful political actors who have historically dominated different levels of government in Pakistan (Akhtar, 2010; Burki, 2009; Khan & Akhtar, 2001). Based on the work done by Acemoglu and Robinson as well as that by Bhave and Kingston, one finds that their work is based on the assumption of institutional changes as a result of exogenous shocks but endogenous factors can also contribute to such institutional changes.

In Pakistan, the military’s existence and expansion must be studied in the context of regional and global power relations. As the current international wave of invasions by the US and allied forces in the Arab and Gulf regions and the attacks on Afghanistan in the name of the war on terror, governments have had to spend more on their military forces. Pakistan increased its military expenditure – not including foreign assistance for this – from US$3 billion in 1990 (6 per cent of the total budget) to US$4 billion (9 per cent of the total). In addition, Pakistan received military aid from foreign countries. When looked at as a relative power in terms of military spending, Pakistan is increasing its expenditure compared to India and China. China’s share has been decreasing over the last 50 years while the gap between India and Pakistan has narrowed, indicating considerable advancement by Pakistan (Kumar, 2003). So, in the case of Pakistan, the military needs to be studied given its multi connections with the corporate elite, along with its role as an elite group and its place in the political system as well as its linkages with International elites.

By the time the third coup occurred in 1999, the military did not just remain an elite group working to ensure the state’s stability; this institution had also emerged as a major corporate group. The involvement of the military in the corporate sector is considered
massive (see Siddiqua, 2007). Hussain (1979) described military power in Pakistan as not just “interventionist” as per civil military models of western countries, but as part of the political and business systems, with the power to take over the government at will. Fair (2011) was of the view that the military in Pakistan is a force which will sustain its control over the country either by being in a ruling position or from behind the scene. The occurrence of military coups will also prevail in future.

Crucially too, ongoing contestations among military elites can be linked with political changes. Whenever a military coup happened, it transpired after the ruling political power had undergone some dramatic changes in the upper most echelons of the military. This was evident when Zia-ul-Haq was promoted as Chief of Army Staff by Prime Minister Zulfiquar Ali Bhutto although it was not his turn to hold such a high position. A similar regime change occurred not long after General Pervez Musharraf was promoted.

### 3.1.3 Corporate Elite

Useem (1983) analyzed the corporate elite of America and Britain and defined them as those comprising men and (a few) women who were in a position to exercise a major influence on the decisions and policies of large companies. The early 1980s was a time when the governments of both countries followed a “supply side economics” philosophy and radical reductions in state social services and traditional safety nets. Useem’s work focuses on the resultant strategies and activities of the large corporations towards the government’s pro-business activities. He discussed in detail how corporate elites obtained power and then manipulated the governance of political parties in their own interest. He emphasized multiple in-house strategies opted by corporate elites in the shape of philanthropic activities and nonprofit organizations to sustain their strong stance and
position in the society. These corporate elites whom he called an “inner circle” obtained the leadership of major business associations, own most of the media channels and financially support political parties and candidates. This study assesses the corporate elite of Pakistan under these domains.

In Pakistan, corporate elites played a critical role at the time of independence and have been an important power source since then. However, the interesting thing about the corporate elites of Pakistan is the contestations among them. Analysts consider these contestations among the corporate elites of East and West Pakistan as the major reason for the division of the country in 1970 and the creation of Bangladesh. The corporate elites of West Pakistan had been so powerful and influential in policy decisions that it was not considered wrong when the East Bengal Professional Elite (EBPE) accused corporate elites of treating their province as a colony that could be exploited for its raw materials and resources (Ali, 2001).

Pakistani corporate elites have been facing numerous internal and external issues. As emerging elites, they have always been under the social influence of bureaucrats and landlords. Being corporate people, their focus involved securing high profits; but they have been entangled in caste and class conflicts too. In an interview with me, one famous political analyst, Dr. Imran Ali, who has extensively studied business groups of Pakistan mentioned that corporate elites have always been involved in unproductive social competition with feudal lords who have long had a lavish life style, one they inherited from their ancestors. Pakistan is a society of social classes. Landlord elites historically are following a lifestyle of lavish living. Corporate elites, after securing good profits,

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*Useem identified the inner circle as those individuals who have been personally approached by senior government officials with a request for reactions to a “shortlist” of candidates for appointment to major advisory bodies or even top administrative posts.*
strove to compete with each other and other elites by spending extended on lavish lifestyles. At the start of industrial development, such wasteful expenditure should not have been the case as the country needed reinvestment of profits in the industry rather than nonproductive expenditures.

To win the race of extravagant lifestyles, Pakistan’s corporate elite tried to be in the limelight by spending extraordinary on lavish villas and cars, rather than industrial units. For example, during the development decade (1958-68), over US$300 million was spent on the import of private cars while US$20 million was spent on public transport. At that time private luxury housing accounted for 80-90 per cent of the construction that took place in the country (White, 1974).

According to Mahboob-ul-Haq, for all practical purposes, 22 families had become by 1968 both the planning commission and the ministry of finance for the private sector. They pre-empted most investment permits, import licenses, foreign credits and government patronage because they controlled or influenced most of the decision-making forums handing out such permissions. They had virtually established a stranglehold over the system and were in a position to keep out new entrepreneurs.

Ethnic disputes among corporate elites had not let them gain the economic position which they could have secured if they had worked together and with other elite groups. Such ethnic and social factors justified their shape till the 1980s. However, after this period when the local corporate elite had to face global competition, along with the neo-liberal policies of the government, how they responded to these issues and what new strategies were followed by those big corporate names has still not been researched. As Dr. Kaisar Bengali said in 2009, there had been no industrial policy for the last 30 years after the
country was transformed from a developmental state to a security state\textsuperscript{10}. This research focuses on these factors which had an impact on the corporate elite and how they sustained in it.

3.1.3.1 Tools used by Corporate Elites

Corporate elites around the world always use networks as a tool to collude with each other and other power elites to expand their profits and businesses. Davis, et al. (2003) did research the networking patterns of corporate elites and the stability of these ties. They found that the aggregate connectivity of the network is remarkably stable and appears to be an intrinsic property of the interlock network, resilient to major changes in corporate governance. They used concepts from “small world” analysis to explain their findings that the structure of the corporate elite is resilient to macro and micro changes affecting corporate governance.

For networking analysis, the sample studied and considered by Mills (1956) was a small set of private schools, while Groton and Exeter\textsuperscript{11} provided an essential agency for socializing and organizing members of the upper class, and Mintz and Schwartz (1985) argued for a special role for money-center banks in knitting together corporate directors. Davis, et al. (2003) suggest that the small-world organization of the corporate elite is an emergent property of networks-qua-networks and requires no coordinating mechanism. These scholars suggest that no specific mechanism is followed by corporate elites for networking and it keeps changing as per the events occurring in a country. The other

\textsuperscript{10} http://archives.dailytimes.com.pk/business/03-Mar-2009/

\textsuperscript{11} Quoted in Brooks (2010, p.21).
school of thought involving the “old school boy” network argues that corporate elites in each society follow certain channels and networks to develop links and liaisons with others which are later useful for future progress (Bell, 1994; Schaede, 1995).

Berle and Means (1932) explored the evolution of big business through the legal and economic lens and argued that in the modern world those who legally have ownership over companies have to be differentiated from those who control them. Later, Domhoff (1967) employed Berle and Means’ concept of ownership and control in his investigation of the corporate structure of America, specifically to trace the flow of power, through elite-based networks of the country. While studying Pakistan’s business groups’ ownership and control structure, it was found that as most of them are family business groups so control was with the major shareholders. The average shareholding by family members and the associated companies of the group came up to 30-35 per cent. This makes the boards of directors who primarily constitute family members the major decision-makers and they control the managerial decisions as well.

3.1.4 Landlord Elites

As defined by La Porte (1975), landlord elites are members of large landowning families who choose to be outside the military or civilian bureaucracies. Likewise, Maniruzzaman (1966) defined them as those who could easily get elected to political positions because of their control over the economic life of their tenants. Pakistan is an agricultural-based country and major tracts of lands for this sector are controlled by big landlords who, due to their control of major economic resources, indirectly control the lives of the tenants and farmers working on that land; this situation qualifies the landlord elite to be seen as an influential force in Pakistan’s political scene (Javid, 2011).
British rule extended to the area, currently Pakistan, in the early and mid-nineteenth century. First in Sindh to the south and then in the central and northern regions, namely Punjab and the North West Frontier Province (NWFP). Prior to that, the Mughal Empire’s influence over this area had begun diminishing after 1750. But their rule was replaced by small political fragmentations in the shape of states and Rajs which later battled separately for their freedom with the British but ultimately came under their rule. It was only in Punjab that the Mughal situation was different.

In all other states ruled by the Mughal Empire, the transition can be seen to have been more orderly to successor states and entities. However, in Punjab, with this transition of power the descendants of provincial governors of the old Mughal Empire became influential. Later, when the British extended their rule, they restructured these regional kingdoms, but this worsened the socio-economic situation of the agrarian based-population of this area. Thus the caste and class patronage system remained in that area (Alam, 1986; Habib, 2001). Due to this, in Punjab, the peasant rebellion against elites and the Mughals was seen from the early eighteenth century which persisted during British rule.

The reason for these local protests was the increasingly unacceptable extractive demands by the Mughal center. Secondly, the emerging market economy which led to intense urbanization enhanced demand for a more competitive environment which put pressure on agricultural producers. This pressure inculcated in them a rebellious attitude towards elites and government. Regional elites were destroyed by decades of social protests by the peasants. From the newly-formed fiefdoms emerged what was acknowledged by the British as “native” or “primary states” (Griffin, et al., 1909).

Certainly, British rule had strengthened the agrarian hierarchy in Punjab but no significant urban development was evident in this state at that time. This meant little industrial
development occurred in this area. Despite major agrarian surpluses over the previous half century, what now constitutes Pakistan had only a single textile and sugar mill in 1947.

At the time of independence, the area which became Pakistan was basically rural with very low literacy levels and an elementary infrastructure. But, on the other hand, the agrarian elites and dominant peasant castes supported the British by providing men and materials during the uprising of 1857 against other Indian revolutionaries. This led the Britain to convert this area to a militarized economy for the purpose of serving as a logistical base for their “great game” of conflict with the Russian empire in Afghanistan and Central Asia (Ali, 2004). The Punjab province alone provided over half the recruits to the British Indian army as well as a major human resource during both world wars (Low & Ray, 2006).

This alliance was further strengthened through extensive land settlement schemes on new canal-irrigated tracks which were built under British rule. Researchers have considered the development of this canal system as a form of “gentlemanly capitalism” by the British (Cain and Hopkins, 1993). This canal system was in fact needed by the British corporate elite as India had emerged for them as a key target for long-term capital investment (Cain and Hopkins, 1993). A huge land around these water canals was reserved for peasants, or abadkar, and a grant of up to 50 acres was provided to the residents/peasants of that area in return for their loyalty to British rule. This further strengthened the ties between the agrarian elite of that area and the British, a reason for the decline in the volume of aggression among agrarian peasants of Punjab of the sort that was evident in other parts of South Asia. The landlord elite of this area became further entrenched by monopolizing the new commercially valuable landed resources. The military was also a major beneficiary of agricultural colonization. Its authority was significantly strengthened by
the new canal economy, with large areas devoted to military use (Ali, 1987; Gilmartin, 1994).

Maniruzzaman (1966) argues that in the initial days of Pakistan, 0.1 per cent of total landlords owned land to the extent of five hundred acres or more. In the 1951 provincial elections, 80 per cent of the seats in Punjab and 90 percent of the seats in Sindh were won big landlords (Zamindars). The big landlords, now in important political positions, have been there even before the partition. Even in the present period, leading members of the national and provincial assemblies are either the big landlords or businessmen. According to Alam (1974), this feudal power had manipulative control, and it serves as a starting point for an analysis of politico-economic change in the country. Military and bureaucratic elites also have their roots in this group of landed aristocracy. Normally, key military and civil servants were members of the big landlord families and their connections with those families helped them reach the peak of those elite groups also.

Being an agrarian economy, the concentration of political and economic power in Pakistan was in the hands of landlord elites, the fundamental reason for their ability to have ownership of large segments of agricultural land. However, more recently, one other reason for their control over land is that in spite of the expanding number of small and medium-sized farmers, the latter cannot, even with all kinds of public institutions providing agricultural capital to these small farmers, compete with large landowners for numerous reasons. For example, landowners have control of financial institutions from where small farmers need to get credit to buy water, seeds and fertilizers. Secondly, these big landlords are the wholesalers and distributors of pesticides and fertilizers in their areas, the people from whom small farmers purchased these products.
3.1.5 **Bureaucratic Elites**

Bureaucratic elites were one of the early craftsmen of the power structure of Pakistan. Numerous studies, including by Ahmad (1971), Burki (1969) and Cheema and Sayeed (2006), focused on their role from different dimensions. Sayeed (1958) argued that the Indian civil servant heritage became strong when General Mirza became the Governor-General in 1954 and appointed Ch. Mohammad Ali, another civil servant, as Prime Minister. Sayeed (2006) proved, with time, by 1958, this bureaucracy had emerged as one elite source which had major influence over public decisions. Ali and Raza (2011) assessed the performance of public sector employees. He concluded that the politicization of decisions and lack of employees’ voice in the decisions of the top management had repercussions on the performance of public sector employees.

Kennedy (1987) provided a comprehensive study of the bureaucratic structure, analyzing in particular the development of the cadre system. It is an old British bureaucracy system which has a history from 1793 and the constitution of 1973 is also based on the same system. In this system, Pakistan’s bureaucracy had basically three major characteristics: 1) the secretariat system of bureaucratic authority; 2) the systematic preference for generalists; and 3) the cadre system of organization. Technocrats employed in the federal government were primarily engineers, physicians and scientists. The number of economists and planners was smaller than them, indicating that the ones occupying policy-making seats were specialists of a particular profession who did not have a long term strategic economic and planning vision. This certainly left an impact on the decisions made by these technocrats.

Kennedy (1987) also discussed in detail the administrative reforms of 1973. This was the main promise of the Bhutto government, to implement administrative reforms to counter the extraordinary controlling powers that bureaucrats had (Khan, 1980). The salient
features of these reforms were considered by Kennedy (1987) as “revolutionary”, if they had been implemented. But when analyzed in-depth, this was again an act by bureaucrats involving an “implicit compromise between politicians and bureaucrats” to ensure that power and control would not be taken away from technocrats and the typical cadre system. Therefore, he concluded that the process of administrative reform had been an intensely political phenomenon (Kennedy, 1987).

Shafqat (1999) also considered the elite status of Pakistan’s bureaucracy. It was more pronounced, compared to other developing countries, but a system that was in disarray if not in decline. Like Kennedy (1987), Shafqat (1999) emphasized administrative reforms. Niaz (2009) considered Pakistan a continental bureaucratic empire, not a colonial invention, on the basis of the territories it presently comprised. This is because these territories were governed by continental bureaucratic empires long before the British advent (Niaz, 2009).

Bureaucratic elites had always been in confrontation with landlord elites, compared to other elite groups. Since the first ten years after independence was basically the era of bureaucratic elites, and since the landlords who were the major economic resource-holders had in them the tinges of dictatorship, they considered bureaucrats as their competitors. In addition, the war for power was also a reason for this confrontation. But as the bureaucracy had control over public administration and these landlords were active members in the political arena, this war kept escalating. Bureaucrats kept challenging the peasant-controlling power of landlords by considering it as their administrative duty while landlords kept using their political influence to transfer the bureaucrats from one district to another (Rashid & Shaheed, 1993). Later, following the first military coup in 1958, the military elite became more powerful. Bureaucratic elites dealt with them, too, quite efficiently by raising no confrontation with them, apparently counteracting the
division of power and control quite tactfully without making it an issue of prestige and pride for each other.

Nevertheless, Hussain (1979) argues that bureaucratic elites could have been much more productive if they had undergone two radical changes, i.e. decolonization and Islamization. According to Hussain (1979), the old colonial ruling system which was being carried out by the bureaucracy needed to be changed and such structural change had to be accompanied with Islamization, which focuses on collectivism rather than individualism, which was actually the essence of the colonial bureaucratic system of Pakistan.

3.1.6 Religious Elites

The religious elite of today cannot be characterized as the same sort as those at the time of independence. At that time, M.A. Jinnah and other political leaders based their political ideology on the religious grounds of having a sovereign state where Allah had the sovereign authority and Muslims would be allowed to order and lead their lives in accordance with the rules set by the Holy Quran and Sunnah. Akhtar, et al. (2006) introduced a term which would resonate with such a strategy, i.e. “Political Islam,” and defined it as that body of modern political ideas and practices that evolved primarily as part of a larger struggle for power in the post-colonial context. However, such a strategy could only convince one set of Muslim scholars like Maulana Abu ‘ala Maududi and Sayyid Qutb while some others did not accept it, like Ali Shari’ati. Nevertheless, the religious elite of that time played a vital role in the struggle to have a separate Muslim-majority homeland in the sub-continent. But with this move for a separate homeland, a constant segregation of these elites into different sects occurred, contributing to serious disputes of an intra-religion nature. In today’s Pakistan, disputes prevail between Shi'ah
and Sunni, Brailvi and Deobandi, and Qadiyani and Ismaili (Ahmed, 1983), all affecting the course of socioeconomic development.

Massive Islamization occurred during the third military regime of General Zia-ul-Haq, when the religious elites became prominent. Zia-ul Haq used Islam only to strengthen his control of the country and took it as a justification for extending the military coup for almost ten years (Tanwir, 2002). Following this, religious political parties, particularly Jamiat Islam (JI), have been considered as major participants in politics. But surprisingly, no elections in Pakistan reflected their strength, in terms of winning a considerable number of seats and proving themselves as a strong opposition. Despite this, other parties have always sought liaisons with them because of their influence in terms of developing and shaping public opinion (Sayeed, 1963).

In the 1988 elections, the Pakistan Muslim League (PML) made a strategic alliance with eight other parties against the Pakistan People’s Party (PPP) to counter an attack on this party led by Bhutto. The major alliance was between PML and JI and was called Islami Jamhoori Ittehad (IJI) (Unity of Islamic Democracy). The IJI won only 53 seats in the National Assembly, compared to 92 won by the PPP. Most IJI seats were won in Punjab. Nawaz Sharif emerged in the 1988 elections as the most powerful politician outside the PPP. He succeeded in forming an IJI administration in Punjab and became the province’s chief minister. It was from this power base that he waged the political battles that eventually led him to the post of Prime Minister in 1990 (Tanwir, 2002). Talking to a private TV channel in 2009, former chief of the Inter-Services Intelligence (ISI) Lt-Gen (R) Hameed Gul disclosed that the PPP could have got a landslide victory in the 1988 elections if the IJI had not been formed. He said that there were reports of a massive PPP victory. They feared that the PPP was returning to power after the execution of Zulfiqar
Ali Bhutto. He also stated that he took the responsibility for forming the IJI, though it was not his idea.

Pakistan's former ambassador to the United States, Husain Haqqani, in his controversial 2005 book, *Pakistan: Between Mosque and Military*, wrote about the linkages of the military with religious groups. According to him, radical Islamic groups, which portrayed themselves as the guardians of Pakistan's ideology, had been granted special status by the military-civil bureaucracy that normally governed the country. The Islamists claimed that they were the protectors of Pakistan's nuclear deterrent capability as well as champions of the national cause of security of Kashmir. Secular politicians who sought greater autonomy for Pakistan's different regions – or demanded that religion be kept out of the business of the state – had come under attack from the Islamists for deviating from Pakistan's ideology (Haqqani, 2005).

The Pir and Ulema (Religious elites) have been willful accomplices of the state in reinforcing an instrumentalist use of Islam, whether in reference to India (a Hindu majority country) or communist Soviet Union. They have also acted to defend the political survival of a ruling block against perceived threats over an extended period of time (Akhtar, et al., 2006). What is evident in these studies of the religion and politics nexus is the clearly strong influence of religion on political decisions and policy implementation. As at the starting years of Pakistan, Moududi’s role in converting the country from an Islamic republic to an Islamic state and how political leaders react to such a radical demand by religious elites has been covered in studies (Nasr, 1996; Sayeed, 1963).¹² Later, how political elites used religious elites and slogans based on religion to fulfil their political objectives has also been analyzed (Haqqani, 2005; Hoodbhoy &

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¹² See also Ziring (1984).
Nayyar, 1985; Nasr, 2004; Tanvir, 2002). But none of these studies explain what impact these religious-political nexuses have had on the development of the corporate sector.

3.1.7 International Elites

Pakistan is one country where the presence of the world’s leading superpowers is clearly evident. Institutions from these superpowers have a vested interest in Pakistan’s economic and political decisions. The foreign players in this list keep changing depending on the international political scenario. At the time of the Cold War, the Soviet Union and the United States were the main players in Pakistan. However, with time, with the break-up of the Soviet republic, the IMF and World Bank emerged as key actors in Pakistan’s economy. The role of Pakistan’s neighbors, China, India and Iran, being co-nuclear power holders were another key issue (Ayub, 2008).

A World Bank study in 2001 raised an important question: why is Pakistan, although a country with relatively good per capita growth from 1950-99, under-performing in resolving problems involving education, health, sanitation, fertility, gender equality, corruption, political instability and violence and sustaining democracy (Easterly, 2001). The study called this pattern of evolution "growth without development” and pointed to elite domination and ethnic divisions as major reasons for the country’s problems.

The financial aid given by foreign governments and institutions to Pakistan since its independence has been a heavily debated topic. One school of thought does not agree with providing such financial support to Pakistan on the grounds that this basically contributes to problems in the South Asian region. Countries receiving aid get too reliant on financial support and though in fear of not letting it go, are not utilizing such funds in a productive manner. This school also argues that the present problems in this region are
self-driven and created and if the country is left with its own resources, then perhaps it
can find a more optimum way to deal with issues like poverty, health, education and
above all terrorism (Browne, 2012). Despite the fact this school of thought speaks reason,
the literature on this topic provides no clue as to the reasons why the donors persist in
channeling aid to Pakistan even though such funds are not deployed in an optimum
manner.

Browne (2012) argues that the aid going to under-developed countries with all their
conditionalities is not achieving the purpose of development and growth of the people of
those areas. Others have similarly criticized the use of conditionalities that come with
policy-based aid lending (Browne, 2012). For example, aid from the IMF from the start
came along with immense conditions. However, Pakistan’s current economic position
suggests that such aid did not help it as much as it had placed the country under a massive
burden of debt, a factor contributing to internal instability (Khan & Ahmad, 1997, Khan,
2000). Later, Khan (2007), in his analysis of the impact of the IMF and WTO on
developing countries, argued that the IMF acted as an aggressive implementing
mechanism for the WTO and that this may have adversely affected manufacturing in low-
income countries. After 2001, scholars started considering IMF aid as a reward from the
US for supporting the US-led war (Momani, 2004). Cheema (2004), after his analysis of
Pakistan’s macroeconomic indicators from 1997 to 2003, its relationship with the IMF,
and the future prospects of its economy, supported the role of these financial institutions
and considered them as a helping hand to solve this country’s macroeconomic problems.
Along the same lines, Ahmed (2012) argued that the hard and hostile face of IMF had
changed due to the role of the Independent Evaluation Office (IEO) which had made this
institution more transparent.
The purpose of understanding the role of international elites in this research is not only to highlight or pinpoint who had benefited from such alliances, but to see how local elite groups colluded with each other under the umbrella of this big, foreign elite group as well as to what degree international elites had had an influence and control over local decisions. The other point of view in this aspect was the use of these international elites to play a vital role in Pakistan’s political decisions in the name of economic development agreements though only to safeguard the power position of specific power groups, both in and outside the state.

3.2 Conceptual Framework

The literature review indicated the gap in the area of the impact of elite collusions and contestations on corporate development in Pakistan. In the following section of this chapter, the theoretical and conceptual framework adopted for the study are outlined. Later, the methodology followed to answer the research questions will be discussed. Since the level of analysis starts from the macro level and reaches down to the micro stages, a multi-layered framework is developed. This framework will involve an application of power theory along with a political approach followed by a review of the development of business groups to determine the outcomes of the changing configurations of power in different regimes.

As the core objective of this study is to trace the impact of power reconfigurations on the corporate sector, an in-depth assessment is provided of business groups which have political connections. As mentioned in Chapter 2, political connections are defined in various ways in the literature (see, for example, Faccio, et al., 2006; Faccio 2006; Fan, et al., 2007; Bertrand et al., 2007; Li, et al., 2008; Ferguson & Voth, 2008; Boubakri, et al., 2008).
The reason for selecting business groups as a unit of analysis is that these large enterprises are shaped by collusions which had occurred between power elites. The rise of these business groups made them a key player in determining political and economic outcomes. Power elites in business, politics, military, religious and foreign institutions have extensive direct and indirect control over the economy. The elites who capture control of the state use political office to ensure distribution of government concessions to benefit themselves or their allies. This is a factor contributing to further contestations that undermine economic development (Shafqat, 1998).

The conceptual framework is designed based on a combination of three core themes: elites, ownership and control and political connections. As mentioned in Chapter 2, the theory of elite contestations needs to be extended to provide a more nuanced understanding of power configurations in Pakistan. Since the focus here is on the corporate sector, alongside power elite theory, La Porte et al.’s theory of ownership and control is also employed to measure the concentration ratio and its impact and influence on power and decision-making at the policy-making level. A large amount of recent empirical work has indicated that ownership is typically concentrated in the hands of a small number of large shareholders (e.g., La Porte, et al. 1999; Barca & Becht, 2001). However, large shareholders are responsible for ensuring that the interests of small shareholders are served, an issue addressed by having a few minority managers (Shleifer & Vishny, 1986; 1997).

For an analysis of benefits business groups obtain through political connections, Faccio’s (2006) theory of politically-connected firms is applied. By combining these theories, this study has designed a methodology for analyzing the interconnected research questions of this thesis. Since the thesis is divided into three fundamental research questions, the explanation is done at different levels, to measure the major variables. In Figure 3.1, the
process of collusions and contestation involving the key power elites is explained. This figure indicates that all seven elite groups do keep colluding with each other. In addition to the three groups mentioned by Mills, four power elite groups are included here, in keeping with the context of Pakistan.

Source: Author

**FIGURE 3.1:** Process To Trace Collusions & Contestations between Power Elites

The variables adopted for assessment here are based on the study conducted by Hussain (1979) which reviewed Pakistan’s power structure. The sources of power of these interest groups are what make them powerful enough to influence the opinion of the masses. Among landlord elites, their source of power is their control of the economic resources of the peasants who are working on their land; because of this power they have the trust of their workers. Being landowners over many generations, this provided them with the ability to build longstanding generational relations and trust with the people working and
living in that area (Maniruzzaman, 1966). For this reason too, there has always been a confrontation between landlord elites and industrial elites over how to influence public policies that shape land ownership and labor movements (Falcon, 1967).

For religious elites, the source of their power is religion (Sayeed, 1963). As people believe in their words and deeds on the basis of their faith in Islam, these religious elites are the heads of different Islamic-based parties belonging to multiple sects and people finance them willingly to strengthen their sect in this Muslim society (Tanwir, 2002). Religious parties like Mutahida Majlis-e-Amal (MMA)¹³, Jamaat e Islami Pakistan (JI)¹⁴ and Pakistan Awami Tahrik (PAT)¹⁵ have the support of local bodies as well as international allies (Misra, 2003). These religious parties have used their influence over religion as a tool to enter the political domain, giving Pakistan’s political system a complex look (Akhter, 2012; Ayoob, 2004).

Bureaucratic elites are viewed as the most influential interest group as they control public policies (Shaikh, 2002). The role of the bureaucracy in shaping the contemporary structure of Pakistan’s politics has been the subject of numerous studies, involving also the shaping of rent-seeking activities and corruption (Ahmad, 1971; Bhamhri & Nair, _________________________________________________________________________________________________________________________________

¹³ MMA (Assembly of Islamic Clergy, Fazl-ur-Rahman Group, JUI-F) is an ultra-conservative religious and theocratic party which, in 2002, formed a ruling coalition with Muttahida Majlis-e-Amal in Khyber Pakhtunkhwa and with the PML (Q) in Balochistan. It currently holds 15 seats in the National Assembly, 5 seats in the senate, 17 seats in the Provincial Assembly of Khyber Pakhtunkhwa and 8 seats in the Provincial Assembly of Balochistan. Its economic policy orientation is socialist.

¹⁴ On 26 August 1941 in Lahore, Jamaat-e-Islami (JI), a rightist, Islamist party, was founded by Abul Ala Maududi, a Muslim theologian and philosopher. It aims to create an Islamic democracy in Pakistan ruled under Sharia law. The JI elects its leader (emir) democratically. Siraj ul Haq is the incumbent emir. After independence in 1947, JI moved its base to West Pakistan while the remaining members formed the Jamaat-e-Islami Hind.

¹⁵ Pakistan Awami Tehrik (Pakistan People's Movement, PAT) is a politically radical, ideologically centrist and religiously moderate political party. Populist Sufi cleric Muhammad Tahir-ul-Qadri is its founding chairman. In 1990, PAT participated in the national elections just one year after it was founded. In 1991, PAT and TNFI (Tehrik-e-Nifas-e-Fiqh-e-Jafria), a Shia political group now known as Tehrik-e-Jafria), signed a “Communique of Unity” to promote social and religious harmony. PAT enjoys considerable support among the religious but moderate lower middle class.
1971). The fourth group added in this study is international elites, a group discussed in the previous chapter in detail given their importance in the Pakistani context.

The implications of power reconfigurations on corporate development need to be assessed in a multi-layered fashion. Therefore, the case studies of business groups are evaluated in the following layers. Initially, each business group is assessed individually under each regime on the basis of the economic environment and political situation. How and why economic rents are distributed to business groups will be reviewed here. Then each business group is studied with the additional focus on investment patterns in the corporate sector. This helps explain the ownership and control structure of the corporate sector under different regimes. For example, the study is structured in a way that regimes will be identified on the basis of corporate policies which allowed the corporate elite to follow different modes of investment which changed their business ownership structure. An analysis is provided of which new groups are controlling major privatized entities. Since it explains the changing structure of ownership and the political contacts, the leading business groups are analyzed to find out how they attained concessions from the state. At the third level, the modes through which the power elites play an important role in decision-making are assessed. Another layer of analysis will focus on the different types of power elites who exist in Pakistan’s power structure. A detailed explanation of the connection between each layer is explained later.

Pakistan’s power structure is multifaceted. To develop an understanding of the nexus between the power elites, we have to trace the links and networks they use to reach the ruling elite, review the environment they have to work in as well as determine the other variables that have a bearing on how they develop their business groups (Ismail & Rashid, 2013); all these factors influence collusions and contestations among power elites under each regime.
Przeworski and Limongi (1993) have noted the impact of different political regimes on economic growth. This study intends to trace, more specifically, the impact of each regime on the corporate sector. Therefore, the outermost layer depicts the level of political instability; this is a key factor under each regime as it determines the volume of business risk a group is willing to accept. The security situation, which also determines the volume of business risk-taking, is another core variable, as it does vary under different regimes. It is also important to note that political instability and security matters are outcomes of contestations and collusions involving power elites (Ali & Malik, 2009; Burki, 2009; Zaidi, 2000).

Taking the analysis to a deeper level, each business group which constitutes part of the corporate elite will be assessed on the basis of business options available to them. How they expanded their businesses with these concessions will be assessed. Corporate elites normally depend on privatization to grow. The government has privatized companies which were nationalized by the Zulfiqar Ali Bhutto’s regime (1971-77) along with poorly performing state-owned enterprises (Aftab & Khan, 1996; LaPorte, 1996; Bokhari, 1998; Husain, 2005). Business groups have also been supported by import-substitution programs (Ahmed, 1980; Papanek, 1966). The additional mechanism employed by business groups to expand is by colluding with MNCs. These MNCs bring in massive foreign exchange along with well-developed managerial and administrative skills. These international companies always prefer to collude with local business groups as they have a strong network already developed in the home ground and are aware of domestic market trends (Brecher & Abbas, 2005; Dutta & Ahmed, 2004; Islam, 1972). The government’s neoliberal economic policies are a major attraction in the shape of high subsidies and other market-expanding strategies (Sajid & Chaudhary, 1996).
International investment flows have been in the shape of direct investments or portfolio investments by MNCs. Foreign direct investments have been authorized in a manner which allows MNCs the ability to repatriate all their earnings. For a country to develop, it is always much better to have an increase in direct domestic investments as it allows for the creation of long-term employment and investment opportunities (Khan & Kim, 1999). The third layer depicts the mechanisms used by power elites to obtain maximum political power to control public policies and have contacts with the command posts. These elites are diverse in nature. Bureaucrats are in business and they have also been designated to the boards of directors of companies owned by business groups (Shirley, 1999). The corporate elite use their presence in these boards of directors of private and public limited companies as a mechanism to control the economic conditions of the country (Ali, 2001). In this approach, their decisions do have a direct effect on share prices and can affect the stock market.

Spears (1991), Levine and Zervos (1998), Atje and Jovanovic (1993), Comincioli (1996), Filer et al. (1999), Tuncer and Alovsat (2001), Levine and Zervos (1995) and Demirguc-Kunt (1994) have supported the view that the growth of stock markets indicates the development of the corporate sector and serves as an indicator of how an economy is faring. When working in tandem with well-functioning financial or banking sectors, stock markets can boost economic development (Rousseau & Wachtel, 2000; Beck & Levine, 2003). It is for this reason publicly-listed companies from selected business groups are used as case studies for this thesis.

Other methods used by power elites to secure policies that favor them include securing a presence in ministries and in political enclaves (LaPorte, 1975). The presence of these elites in ministries allows them to be directly involved in the political system as well as indirectly influence public policies. By being part of political enclaves, this helps elites
from different groups to influence the ruling elite (Acemoglu & Robinson, 2006; Ahmad, 1959). Perhaps the most influential tool used by the military, the most powerful power elite in Pakistan, is a military business, generally referred to as “Milbus” (Mani, 2007; Siddiqa, 2007; Verkaaik, 2001; Zaidi, 2005). Military-owned businesses are not unique to Pakistan. Scholars have studied military involvement in businesses in Indonesia, China, Turkey, Thailand, Nigeria, among others16 (Mora & Wiktorowicz, 2003; Mani, 2011).

There is a requirement to contextualize the role of internal and external power elites in Pakistan. As discussed in the analysis of the seven power elite groups, one of them constitutes international elites who can be considered as an external influence in the power circle of Pakistan. For this reason, the model in Figure 3.2 provides a separate layer for international elites who are shadowing the strategies of the other six internal elites. Since international elites are the only power elite who are colluding and contesting individually as a separate entity with other elites, this group can shape or influence decisions taken by all other power elites. Since international elites can function in the shape of foreign aid (Khan & Ahmad, 1997; Mahmood, 1997), loans (Momani, 2004) and military assistance (Schaffer, 2002), they have shown the capacity to influence the

16 In Indonesia, the military has business ventures in the manufacturing and mining sectors as well as oil interests; it also demands “protection” from MNCs and had assets estimated at more than US$10 billion. By the 1990s, China’s People’s Liberation Army (PLA) had incorporated more than twenty thousand enterprises, employed several million workers and demanded state compensation of US$24 billion upon divestiture of its assets in 1998. The Thai military controlled national radio and television broadcast stations that generated more than US$1 billion, until privatization of these firms in 1999. Pakistan’s military holds assets and investments worth US$5 billion, including stakes in industries ranging from airlines to the most important private bank in the country. Turkey’s military owns stakes in construction, banking and supermarkets, as well as in the automobile joint venture Oyak-Renault. Oyak; the armed forces pension fund employs about thirty thousand people. In Nigeria, through the “nationalization” policies of the 1970s, military officers secured individual stakes in the oil, shipping and financial industries and seats on the governing boards of MNCs operating in the country. Zimbabwe’s military acquired an exclusive timber logging concession worth US$200 million from Congolese strongman Kabila. In El Salvador, Guatemala, Honduras and Nicaragua, their militaries maintain pension funds and ownership of numerous corporations including radio stations, resorts, banks, construction companies and hospitals (Brenes & Casas, 1998).
actions taken by all other power elite groups (Kux, 2001). Undoubtedly, the most active and influential player among these international elites has been the United States (Kronstadt, 2009), particularly after 9/11 when Pakistan became an ally of America in its war against terror (Hussain, 2009). The inner most layer, where its members collude with each other, comprises power elites who are based internally, and these groups have been discussed in-depth above.

3.3 Methodology and Research Design

The methodology adopted for this study is qualitative in nature, involving a meta-analysis of the epochal moments in Pakistan when major decisions were taken which influenced the configuring of its power structure. This study’s primary concern is to determine the impact of power reconfigurations on the rise and fall of corporate elites under different regimes. For this reason, detailed financial and political connection analyses of seven selected big business groups, from their date of incorporation until 2012, are provided. The research design followed for analyzing elite collusions under different regimes is phenomenological in nature derived from Creswell (2012). Here, the coding of information about the key variables is undertaken and then reviewed. In this phenomenological and historical analysis, the focus is on epochal events, classified on the basis of significant statements and decisions, followed by a profound analysis of them with textural descriptions.

The time period studied is divided on the basis of epochal bracketing (see Figure 3.3). The focus is on the occasions when regime changes occurred between the military and civilian governments. Each regime is then further studied on the basis of significant events and statements made by the power elites. As the purpose of this study is to trace the forms of nexuses between the power elites and determine their impact of corporate
elites, a textural and structural description of events and decisions is provided, based on published articles and news reports. Through this mode of analysis, this study provides insights into which the power elite had control of the state under different military and civilian regimes.

<table>
<thead>
<tr>
<th>Essence of the Phenomenon</th>
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<tbody>
<tr>
<td>Epoch</td>
</tr>
<tr>
<td>Bracketing</td>
</tr>
</tbody>
</table>

Source: Creswell (2007)

**FIGURE 3.2: Coding of Phenomenology Study Pattern**

For case studies of business groups, the template recommended by Creswell (2007) is followed, one where the coding of the information gathered is conducted and analyzed. The method employed here is a business history approach. Through this method, in-depth case studies are provided of the history of the development of six major business groups. A comparative analysis of these six business groups is the provided. (Source: Cresewell, 2007)
The six large business groups were identified on the basis of three categories: 1) those groups which were present from the early years of Pakistan and which have survived till now. These groups have retained almost the same position in the corporate sector throughout this period of assessment. 2) Those groups which were small in the early days after Independence but with time have expanded and are now major firms. 3) Those groups which can be considered as the “new rich,” who either emerged lately or have been in the market from the start, but were small-scale firms; they are now among the top market leaders.

At the individual level, these business groups were studied employing three major forms: first, using a business history approach; second, measuring their rise and fall under
different regimes using financial analysis; and, finally reaffirming the findings of the business history approach and financial analysis by employing statistical methods to grade the performance of each group under different regimes. These methods were used to assess the (best and worst) performance of these groups’ publicly-listed companies under these regimes. This method is employed to ascertain what had happened under each regime as well as the support provided by each regime to a particular business group.

3.4 Research Methodology

As the intention of the study is to trace the rise of selected business groups, this was analyzed by measuring the change in their financial strength over a period of time, from their date of incorporation. Financial data of all the publicly-listed companies of these selected groups was collected. It was not an easy task because, in Pakistan, the soft version of the financial data of the companies is available in full only after 2000. However, most of these quoted companies were incorporated in the 1950s and 1960s. For information on the performance of these companies from the 1947 till 1999, the data was collected manually from the record room of the Karachi Stock Exchange. Each year’s file of each company of all selected groups were vetted. A thorough financial analysis was then done of the publicly-listed companies of seven business groups. These business groups own and control publicly-listed companies, as well as private limited firms both of which are registered with the Security and Exchange Commission of Pakistan (SECP). For the analysis to be doable within the required time, this study limits itself to an assessment of the publicly-listed companies of these groups, though for the future research the private limited companies of these groups can also be undertaken. This more comprehensive assessment will provide deeper insights into the strategic decisions that
have been taken that can effect regime change or public policies that can be of benefit to the business group.

3.4.1 Sample Frame

The selection of the groups was based on four primary criteria (see Table 3.1). These criteria are that, first, these business groups had emerged small in the early years of Pakistan’s history but expanded with time. Second, these groups emerged as a major enterprise in the early days of Pakistan, but with time have declined and are now not considered a stop business groups; third, these groups can be considered as the “new rich”. These companies emerged lately or have been in the market but were rather small-scale firms. But now have emerged as prominent market leaders. Finally, Habib group is selected as a group which was a well-established big business group from the date of creation of Pakistan in 1947. As all other six groups established themselves as proper business groups after creation of Pakistan and were incorporated as business groups in 1950s, before that were associated with trading business. But Habib group had manufacturing units before 1947. Therefore, since the interest was to see that how newly-emerged corporate elite survived in different regimes so a detailed analysis is conducted of these business groups but to continuously keep measuring their performance comparative to already established group, Habib group is added in regime wise analysis.
TABLE 3.1: Year of incorporation and number of companies selected as case Studies

<table>
<thead>
<tr>
<th>Big Business Group</th>
<th>Started small &amp; expanded</th>
<th>Started declined</th>
<th>New Rich</th>
</tr>
</thead>
<tbody>
<tr>
<td>Habib</td>
<td>1945</td>
<td>15</td>
<td>Nishat</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Packages</td>
<td>1961</td>
</tr>
</tbody>
</table>

Table 3.1 outlines key aspects of the business groups, including the year of their incorporation and the number of listed companies they owned in 2013. A total of 69 listed firms, owned by these seven business groups and operating in different industries, were analyzed. This analysis involved assessing the change in the performance of the business group after acquiring a major firm. First the ratio analysis was done of these companies’ financial data and later the statistical tool was applied to grade the performance of each business group under different regimes. This was done in order to provide a comparative analysis of the performance of each group under different regimes and to determine their access to loans under each government. Table 3.2 provides a list of each regime that has ruled Pakistan since its independence.

TABLE 3.2: Classification of regimes

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<th>Regime 1</th>
<th>Regime 2</th>
<th>Regime 3</th>
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<td>1BR</td>
<td>1MR</td>
<td>2MR</td>
<td>1DR</td>
<td>3MR</td>
<td>MD</td>
<td>4MR</td>
<td>1DT</td>
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1BR is the first bureaucratic regime. During this time, the bureaucracy had control of the state. 1MR is the first military regime of General Ayub Khan. 2MR is the second military regime of General Yahya Khan. 1DR is the first democratic regime, when Pakistan had a democratically elected government under Zulfiqar Ali Bhutto. 3MR is the third military regime, under General Zia ul Haq. MD refers to a period classified as a mixed democracy, when none out of the four elected governments during the decade after 1988 was able to complete its tenure due to the indirect influence of the military. 4MR is the fourth military regime, under General Pervez Musharraf. 1DT is the first complete democratic transition. This was the first time a democratically elected government completed its tenure from 2008-2013 and transferred power to another democratically elected government.

3.4.2 Financial Analysis

Although there are various accounting measures used to quantify performance, for the purpose of this study two measures were adopted, return on assets (ROA) and return on equity (ROE), as in similar works studying the outcomes of political connections on firm performance (Boubakri, et al., 2008; Dombrovsky, 2008; Fan, et al., 2008). ROA is used to assess the ability of firms to generate returns on total assets available (Tezel & McManus, 2003). This is defined as profit-after-taxes over average assets multiplied by 100\(^{17}\). ROE is used to evaluate the return on money that shareholders have invested (Brigham, et al., 2004). In this study, it is defined as profit-after-taxes divided by the total equity multiplied by 100\(^{18}\).

\(^{17}\) An increase in ROA can be due to two reasons: either the asset base is reduced or profitability of the company has increased. If the investment remains constant and profitability increases, this is good for the company. But if the ROA increases due to a decrease in assets, this is not healthy as it could be the result of investment withdrawals or asset sales.

\(^{18}\) An increase in ROE can be due to an increase in profitability or reduction in equity which happens due to a reduction in shares issued or reserves withdrawal. Equity is considered to be the most expensive form of finance for a company as the shareholders are the highest risk taker at the time of liquidation of the company.
For measuring loan accessibility of listed firms of business groups, a debt-to-equity (DTE)\textsuperscript{19} ratio is used. This is defined as total liabilities divided by total equity of the firm. The financial value of each company of all seven business groups are presented in the Appendices.

Further, ratio analysis can be divided in four types as per the nature of information required. These are liquidity ratios which explain whether a company has the ability to meet its short term obligations as they fall due. The leverage ratio measures the extent to which a company utilizes debt to finance growth. Leverage ratios can provide an indication of a company’s long term solvency. While financial experts will acknowledge that debt is a cheaper form of financing than equity, debt carries risks and investors need to be aware of the extent of this risk.

The third type of ratio is profitability ratio. It measures a company’s performance and provides an indication of its ability to generate profits. As profits are used to fund business development and pay dividends to shareholders, a company’s profitability and how efficient it is at generating profits is an important consideration for shareholders. The ratios which come under it are ROA ratio, ROE ratio, gross profit margin, net profit margin and earnings per share. The fourth type, Valuation Ratios, are used to determine whether the current share price of a company is high or low in relation to its true value.

Valuation Ratios also help assess if a company is cheap or expensive relative to earnings, its growth prospects and dividend distributions.

\textsuperscript{19} DTE ratio is used to measure total debt in each year for each listed company. The DTE of a company increases if the debt proportion in its financial mix increases compared to equity portion. If the ratio is 1:1, this means that 50 percent of the assets are financed by equity. But if it increases to 2:1 then it means that 67 percent of the assets are financed by the equity; that shows the poor position of the company at the time of liquidity. The acceptable range of DTE in each industry varies. Lately, the State Bank of Pakistan issued a statement that the DTE cannot be more than 4:1 for any company.
3.4.2.1 Rationale for Selecting Ratios

Ratios use simple calculations based upon the interactions in sets of data. Although ratios are of limited use on their own, they can be used to derive comparative results among different ratios over years to access the performance of a firm. Since this study aims to trace the rise of business groups under different regimes and determine the impact of these regimes on their performance and access to bank loans, two types of ratios were selected to analyze the data. One is the profitability ratio and the other is the leverage ratio. For profitability ratios, a further two ratios were selected, i.e. ROA and ROE. This is because this study aims to see the change in the groups’ assets position as per each regime as well as to see the change in shareholders perspective towards business groups’ performance under each regime. To measure the political connections of the business groups under different regimes a derived relation was followed among profitability ratios and leverage ratio. The DTE was selected from the leverage ratio as a figurative ratio to measure the impact of different political regimes on each business group’s ability to access bank loans. A comparison was conducted between the changes in the DTE and ROA and ROE.

According to accounting principles, the DTE of any company increases if the debt proportion in the financial mix of the company increases compared to the equity portion. If the ratio is 1:1, this means 50 percent of the assets were financed by equity. But if it increases to 2:1 then it means that 67 percent of the assets are financed by debt; that shows the poor liquidity position of the company. The acceptable range of DTE in each industry varies. But lately the State Bank of Pakistan had approved it to be not more then 4:1 for any company. A figure higher than this means that in the financial mix more than 75 percent of its assets are backed by debts.
The mechanism followed for ratio comparison is the general accounting principle that if the ROA of the company increases and the ROE also show a higher increase, this indicates that the figures obtained are authentic and are justifying each other. One other check applied for its authenticity is the value of DTE. If an increase in ROE is about two-fold to the increase in ROA and the DTE also shows a ratio of 2:1, then the values are aligned. The study checked all these ratios of each year for all 69 listed companies of seven business groups and in the years where the debt value was far above the ROA and ROE values. These years are considered as periods when access to debt of these firms was beyond their financial performance. This indicates that some special privileges were given to the companies in that particular year or that some other special thing had occurred in the company that year. This then is backed with the investigation of the major corporate decisions taken by the business in that year and this is explained in detail in each case study.

3.4.3 Statistical Analysis

The financial analysis provides insights into the political regimes in which each business group obtained special favors. The objective here was to measure the rise of each business group under all regimes; this cannot be fulfilled unless their performance in each regime is graded from highest to lowest as per all three selected ratios. For this purpose, a statistical tool was needed to grade all political regimes as well as all business groups from 1947-2012.

To achieve this target, a two-step statistical model was followed. First, it was required to identify if the performance of each group using all three ratios were different in more than one regime. Only if the performance is different under different regimes, it can be graded
statistically. So, a hypothesis was developed to measure the significant mean variation among two regimes for each group. The Hypothesis is given below:

\[ H_0: M_1 = M_2 \ldots \ldots = M_t \]
\[ H_1: \sim H_0 \]

- \( H_0 \): the performance of Business Group remain the same in each political regime
- \( H_1 \): the Performance of Business Group have significant difference in different political regimes

To calculate the ratio of the variance a one-way ANOVA test is applied. It is a technique used to compare the means of two or more samples (using the F-distribution). This technique can be used only for numerical data. The ANOVA produces an F-statistic, the ratio of the variance is calculated among the means to the variance within the samples.

For the ratios of all seven business groups, for which the ANOVA results prove the significant difference in different regimes, the grading can be applied using Duncan test\(^20\). The Duncan test is a post-hoc or multiple comparison tests which is used to determine whether three or more means differ significantly in an analysis of variance. It may be utilized regardless whether the overall analysis of variance is significant. It assumes equal variance and is approximately for unequal group sizes. It is a step-wise or sequential test which is similar to the Newman-Keuls method, in that the means are first ordered in size. However, it differs in the significance level used.

So the task of grading each group’s performance using all three ratios is conducted by applying the Duncan test. The only intention to apply this test was to grade the regimes

\(^{20}\) The Duncan test is a multiple comparison test which is used to determine whether three or more means differ significantly in an analysis of variance.
according to their mean values, from highest to lowest. By applying the Duncan test on financial data, the results provide a more comprehensive analysis of all groups under all regimes. Meanwhile, the emergence of the same regime as the highest graded regime using the Duncan test provides more authenticity to the application of the average ratio comparison.

The methodology adopted in this study is mixed mode as the role of power elites and their contestations under each regime is analyzed qualitatively. The analysis of the business groups selected as case studies provides insights into the impact of power reconfigurations on the corporate sector. This is measured by assessing the financial performance of selected business groups. This methodology is the primary novelty of this thesis as political connections and the leverages obtained by business groups under different regimes is financially and statistically proven.
CHAPTER 4: NEXUS OF POWER ELITES IN PAKISTAN

In this chapter, the development of the six power elite groups over different regimes will be discussed. The collusions and contestations that occurred among – and within – these six power elite groups will be assessed through an analysis of epochal events.

4.1 Political Elites

Few events have been considerably more imperative in the history of contemporary South Asia than the partition of the subcontinent into India and Pakistan in 1947 based on the two nation theory. The anticipation of partition had a powerful shadow on historical reconstructions of South Asia in the decades before 1947, while the complications of partition have been persistent in leaving their mark on sub-continental politics, even till the present time.

The “Two Nation Theory” is based on the philosophy that Muslims around the world are one nation and hence cannot live under one state with Hindus of United India. But in Pakistan there are ethnic cleavages which developed right from the beginning and exist till now, a factor that has not allowed the country to emerge as one nation. Jalal (1985) wrote that Jinnah was the “sole-nationalist” in a quest to make a nation. Jalal (1985) at the same time was questioning whether Jinnah ever really wanted the creation of a separate homeland for Muslims of United India, or whether the partition was forced by the leaders of Congress who found it more convenient to give Jinnah a "truncated, moth-eaten" Pakistan rather than to give him the political position he wanted in United India. In reality, in 1937 when Jinnah’s Muslim League could only win 55 seats, he coined the formula of a “Two Nation Theory”.


According to Jinnah: “Islam and Hindus are not religions in the strict sense of the word, but are, in fact different and distinct social orders (...). The Hindus and the Muslims belong to two different religious philosophies, social customs, and Literatures (...). To yoke together such nations under a single state. One as a numerical minority and the other as a majority, must lead to growing discontent and the final destruction of any fabric that may be so built up for the government of such a state”\textsuperscript{21}.

Jinnah coined the concept of a “Two Nation Theory” based on the religious divide to mobilize masses in support for partition, even though the major orthodox Muslim groups had initially rejected the idea of state-hood based on religion. Religious elites like Maulana Mawdudi, the founder leader of Jamat-e-Islami (JI), had from the outset opposed the movement for Pakistan.\textsuperscript{22}

For this research, the role of the religious clergy has been divided into pre-partition and post-partition eras, as the movement of Pakistan was driven by then relatively secular Muslims. However, the same idea became a big attraction for Western-educated Muslim elites who otherwise found it impossible to get into the corridors of power in a religiously diverse India. The movement for Pakistan under the banner of religion was therefore dictated by the Muslim elites of India who only sought to protect their own power and interests, rather than being interested in an anti-imperialist movement against the British (Tahir, 2010). However, Wilcox (1968) was of the view that the representatives of elite groups who participated in the movement for independence belonged to three classes; commercial minorities of Western India, represented by people like Jinnah; the English

\textsuperscript{21} Speech of Jinnah in Lahore session of the Muslim League in 1940.

\textsuperscript{22} For this research, the role of the religious clergy has been divided into pre-partition and post-partition eras, as the movement of Pakistan was driven by then relatively secular Muslims.
liter ate, secular modern urbanites like Suha rwardy (East Pakistan’s prominent Bengali leader and fifth Prime Minister of Pakistan); and the landlords of provinces who were part of the rural feudal order like Liaqat Ai Khan (the first Prime Minister of Pakistan).

4.1.1 Pro-Partition Political Elites

Muslim elites of areas where Muslims were in the minority, particularly in Awadh, Agra and Bihar, held dominant positions in government services. With the introduction of Western education and colonial administration, they saw themselves losing their pre-eminence. Their share in the highest ranks of government service declined from 64 percent in 1857 to 41.4 percent in 1913 and 24.5 percent of the judicial positions, while they constituted 14.1 percent of the population. The proposed reforms of 1909 compelled Muslims of the minority provinces to safeguard their interests along religious lines.

Initially, the idea of Muslim separatism developed primarily among the British provinces where Muslims were in the minority, while the Muslim majority provinces accepted the Pakistan movement in 1940. As Jaffrelot (2002) notes that from “the intellect of these regions evolved a nationalist ideology that was over-determined by its socio-economic and political interest… from Syed Ahmad Khan to Jinnah, this elite shaped an ethnic variety of nationalism based on Islam”. Shaikh (1989) links this movement with the result of the attempts by literate elites of the Muslim community, which she named as Ashraaf “elites” to help raise awareness among the people for the need of a separate homeland. The independence movement successfully secured an alliance with urban Muslim traders by promising “the hedging off” of the competition posed by already well-established Hindu businesses.
Muslim traders (later the corporate elite) adjudged the creation of a separate state as a promising land for prosperous ventures without the intrusion of Hindu competitors. Their motivation came from vested economic interests rather than religious sentiments. Similarly, the educated urban middle class (bureaucratic elite) supported the idea of an independent Muslim state which promised better employment opportunities. Muslim-educated urban middle classes were not so much concerned about their religious and cultural rights as they were about their share in the government of the country (Sayyed, 1963). Similarly, for Muslim members of the Indian Civil Service, a separate state meant their domination of the bureaucracy, then under the control of their Hindu colleagues.

Local religious, political and western educated Muslim elites, along with future bureaucrats, encountered dissension based on theology on which the newly-created Pakistan should be governed. These disputes also involved a desire by them to safeguard their interests. The International elite, on the other hand, had their own foreign policy goals in the partition of India. One obvious reason was to use the newly-created Pakistan as a military base against the rising influence of Communist Russia. Based on this theory of international politics, one argument which prevails among political scientists is that the British rulers had already decided to divide India long before the rise of the movement of Pakistan led by Jinnah. Abdul Wali Khan, a Pakistani politician, in his book Facts are Facts – An Untold Story of Partition of India, examined the declassified British imperial documents before the partition of India. Citing those documents, Wali Khan argued that the creation of Pakistan was part of a “divide and rule” policy of the British Empire and that Jinnah, along with some religious leaders and feudal lords, acted as British proxies.

In view of these theories, one reality which persists is that interest groups such as the landlord elites, business elites, bureaucratic elites, modern urbanities and international
elites, together had played a critical role in the creation of Pakistan as a nation state. All later played an important role in shaping post-partition epochal events in the country.

Three major elite groups controlled Pakistan, after independence, and have preserved their position and existence. These were the big landlords of western India who, after the creation of Pakistan, saved their land from any further division or any kind of reforms. Others were the modern educated urbanities who took charge of all state departments as bureaucrats. The last group comprised commercial minorities who were working as traders in western India and were making little profit, but after independence when Hindu entrepreneurs migrated from western India, they got an opportunity to develop themselves as major businessmen. Papanek (1962) did a detailed survey on the nature of entrepreneurs in Pakistan in its early decades and was of the view that most of them were traders who migrated from Western India. Papanek also mentioned the growing disparities among citizens of East Pakistan, which predominantly was because entrepreneurial development in West Pakistan was occurring at a faster rate led as it was by people with business know-how.

Pakistan’s industrial sector started expanding due to two major reasons; one the endless support of government. The second reason was the changing international scene after the Second World War which created a lot of export options for Pakistan’s investors. This was later expanded under the first military regime (1958–1968) through the award of numerous import licenses to the newly-created corporate elite of, specifically, West Pakistan who also benefited from the subsidizing of private industrial sectors (LaPorte, 23 Industry contribution expanded from 1 percent in 1947 to 6 percent by 1959. Industrial assets increased nine-fold and private Muslim-owned firms controlled two-thirds of these new assets (Papanek, 1962).

24 See Naqvi (1964).
When the bits and pieces of all this history are merged, the creation of the major elite players in Pakistan, i.e. the landlord, bureaucratic and corporate elites becomes evident. The political elites who promoted the idea of the Pakistan movement belong to the elite class of these interest groups. The primary reason why they joined politics was to safeguard their own interests.

4.1.2 Political Elites of First Bureaucratic Regime, 1947-57

On achieving independence, Jinnah took charge of the country as Governor-General and appointed as Prime Minister Liaqat Ali Khan, a profound supporter and his companion throughout the Pakistan movement of 17 years. The latter held this position from 1947 to 1951 with the strong assistance of bureaucrats who were trained and appointed to good positions in the British Indian civil service. After Liaqat Khan’s assassination, the top command of the ruling Muslim League coordinated immediately to elect a new leader and landmark changes were made in top positions. Ghulam Mohammad, who had been Finance Minister since 1947, and by profession was a charted accountant, was appointed as the Governor-General. The sitting Governor-General Khwaja Nazim-ud-din25 was demoted by the party as Prime Minister. Choudhary Muhammad Ali was appointed as Finance Minister in Ghulam’s place (Rehman, 2006). Ghulam ruled as Governor-General from 1951 to 1955.

25 Khwaja Nazim-ud-din was a Bengali politician from the Dhaka-based Nawab family. A member of the All-India Muslim League, Nazim-ud-din served twice as Prime Minister of Bengal in British India. After the establishment of Pakistan, he became the second Governor-General in 1948, following Jinnah’s death. After the assassination of Prime Minister Liaqat in 1951, Nazim-ud-din assumed office as Pakistan’s second Prime Minister. A staunch conservative, he was an unpopular political figure. His government lasted just two years, characterized by civil unrest and foreign challenges that led to his dismissal.
The political decisions taken by political leaders at that time did structure the future of international elites in Pakistan. Ghulam was considered the most pro-western member of Liaqat’s cabinet. When Liaqat decided to visit United States instead of a Soviet Union, the Soviets blamed Ghulam for this (Kux, 2001). This visit and later Ghulam’s decision to continue the Pakistan’s alliance with the United States through economic and military pacts shaped the country’s early foreign policy, thereby giving way to the Americans to dominate Pakistan (Rehman, 2006).

Under Quaid-e-Azam's constitutional framework, executive powers lay with the Prime Minister. However, Nazim-us-din was reported as stating that when he was the Governor-General, power rested with the Prime Minister; now that he was Prime Minister, the Governor-General was wielding real power. Given this situation, identifying bureaucrats or political leaders as the primary ruling elite in that early days is not possible as it was a unique arrangement, like the “revolving door” concept involving both of them as the key elites kept switching positions according to the need of the time (Brezis et al., 2013). Politicians and bureaucrats, not only used to collude but often went into contestations with each other. In 1953, Ghulam sacked Nazim-ud-din and imported Mohammad Ali Bogra from Washington to become Prime Minister. Ghulam again played a cunning role in 1947, by supporting the Bengali leader, Hussain Shaheed Suherwardy. Later, when Nazim-ud-din won the elections and became Prime Minister, he changed his alliance with the East Pakistan Muslim League (Bangladesh) and managed to secure the ambassadorship to the United States. Later, he aligned himself with the Ghulam

26 The “revolving door” is a phenomenon widely seen in the politics of the United States, South America and Japan (see Demir, 2004).
Mohammad-Iskander Mirza-General Ayub Khan axis and managed to become the Prime Minister (Kamal, 2012).

In spite of this, Muslims in the Indian civil service now in Pakistan had emerged as a political elite by controlling public policies. After 1955, this civilian bureaucracy evolved into a military bureaucracy. Major General Iskandar Mirza became the last Governor-General of Pakistan in 1955 and first President of the country in 1956 and served as such till 1958 when the first military coup occurred. Mirza, after his stint in the British Indian Army, joined the Indian political service. He became the Joint Defense Secretary of India in 1946. The induction of Mirza from a military position to a political administrative post can be considered as the first step in allowing the military elite to enter the political domain. Iskandar Mirza secured entry in government through Prime Minister Liaqat when he was appointed as Pakistan’s first Defense Secretary.

The other example of civil servants appointed to top government positions was the appointment of Choudhury Mohammad Ali27, the Finance Minister, as the Prime Minister after the dismissal of Mohammad Ali Bogra28. The 1956 Constitution of Pakistan replaced the position of Governor-General to the President. In this way, after almost nine years of independence, Pakistan’s political system was driven by parliamentary democracy29.

27 Chaudhry was also a member of the Indian Civil service and had held several positions in British India.

28 After coming to power, Ghulam wanted to change the status quo of executive powers. To this end, in an undemocratic move, he dismissed the Prime Minister, Nazim-ud-din, in April 1953. After dismissing Nazim-ud-din, the Governor-General appointed a rather unknown leader from East Pakistan, Muhammad Ali Bogra, as Prime Minister.

29 The amendment was designed in the constitution to curtail the powers of the Governor-General to dismiss the Cabinet (Hussain, 2011).
4.1.3 Political Elites of First Military Regime, 1958-68

Elite groups which became influential in the first military regime of General Ayub were the military and bureaucrats. The third group which made its position strong in decision-making comprised industrialists but only those in West Pakistan. These industrialists normally used the tool of marriage ties with civil and military families to enhance their collusion with them. The benefits corporate elites had obtained by forming collusions with bureaucratic and military elites would become obvious in 1965 when 13 civil service officers were dismissed and the companies associated with them were asked to pay their taxes and surrender their foreign exchange; that number had increased by 1969 to 300 persons. Later, Bhutto as a Prime Minister sacked 1400 civil service officers, proving his lack of trust in the bureaucracy (Chengappa, 1999: 340).

Although General Ayub’s regime had outlined definite steps to reduce regional disparities between East and West Pakistan, nothing progressive had happened. In key ministries associated with economic policy-making, all officers till 1969 were from West Pakistan or had emigrated from the Muslim-minority provinces of India. The other regional disparity complaint was that even in West Pakistan, key positions were controlled by Punjabi officers. This indicated a strong sense of regionalism and regional bias. Regional representation was evident in them too. Till the 1970s and even later, 60 percent of the army were from Punjab (Punjab Province) and 35 percent were Pathan (Khyber Pakhtunkhwa Province). This was justified on the grounds that most of the army recruitment was done in four provinces of Punjab and in two from the Khyber Pakhtunkhwa province.

The separation of the Eastern wing from Pakistan was clear evidence of the failure of the political system. Numerous studies, like those by Maniruzzaman (1971), Rahim (1973), Schanberg (1971), Shariff (1971), Wilcox (1968, 1970) and Wriggins (1973), have tried
to determine the key reasons for this failure. Some blamed Ayub’s strategies, while others attributed them to extensive collusions among power elites, primarily the military, bureaucratic and corporate elites of West Pakistan. This led to contestations between these power elites such as the military with regional politicians of East Pakistan and the industrialists of West Pakistan with bureaucrats because the former were not given an opportunity to become a part of government.

Though landlord elites benefitted from regionalism too, ethnicity had always been seen as an essential ingredient of Pakistan’s political power structure. Punjabi and Muhajirs occupied strategic positions in the bureaucracy and military system. Their ideas determined national policies from 1954 to 1970. One group which got involved in the Planning Commission of Pakistan was the Harvard advisory group. Due to their influence, policies had a western influence from the start. In some instances, these US-based advisors even wrote a complete draft of the five year plans. As a result of these policies, development was concentrated in Punjab province and Karachi. Such regional influence on resource allocation strengthened the position of Punjabi elites. This eventually increased the sense of discrimination among people in East Pakistan’s provinces, leading to continuous riots and the subsequent creation of Bangladesh.

Punjabi elites were reputedly embarking on a “Punjabi colonization” of Pakistan, a factor exploited by other ethnic political elites (A. Hussain, 1976). Ethnic-based political elites shifted loyalties from national to ethnic levels. These shifts provided opportunities for the military elite to enter the political arena, eventually taking control of the country ostensibly to maintain law and order.

One reason for the growing disparities between the two regions was the lower level of government expenditure in East Pakistan on physical transport and communication. The Pakistan Industrial Credit & Investment Corp (PICIC) and the Industrial Development
Bank of Pakistan (IDBP) was deployed to favor West Pakistan’s industrialists, specifically by granting industrial credit. Import licenses which allowed industrialists to secure access to the international market after the Korean War was also a source of more foreign exchange. This benefited the industrialists of West Pakistan more than the ones in East Pakistan. East Pakistan received only 30 percent of the total commercial/industrial licenses issued during 1956 and early 1960. Such factors brought about a much higher rate of industrial development in West Pakistan.

4.1.4 Political Elite of Democratic Regime, 1972-77

The period between Bhutto's electoral victory in West Pakistan and his accession to head of state was marked by civil war, between India and Pakistan, and the collapse of united Pakistan (Heeger, 1977). In many respects, 1970 was an eventful, exciting and tragic year for Pakistan. It was eventful because the Yahya regime, unlike Ayub, initiated liquidating its own government in favor of a democratically elected civilian government. It was exciting because after more than a decade, normal political processes, suspended by Ayub, were restored. A year-long electioneering campaign had resulted in politicizing the masses as never before. The outcome of the elections was the emergence of two regional parties: the PPP led by Bhutto, which won in West Pakistan, and the Awami League led by Mujeeb Ur Rehman, which won a massive majority in East Pakistan. Since the military was not ready to hand over the government to the Awami League, this led to civil chaos among the people of East Pakistan. India took advantage of this situation and waged war against Pakistan. This war led to the most tragic calamity of that time, causing over 200,000 casualties.

Bhutto won the elections of 1970 with the slogan of Islamic socialism: “Islam is our religion, Socialism is our economy, and Democracy is our politics”. He faced the civil
war with the same slogan and used it during his tenure, although the economic policy to support that slogan was never clear all through. Bhutto critiqued “robber barons” during his election campaign and promoted the idea of equal distribution by nationalizing resources concentrated among industrialist groups. Industrialists protested Bhutto’s policies. Language riots in Sind were backed by the Mahajar (migrant) industrialists of Karachi who were the major beneficiaries during the 1960s industrial push.

After the Bhutto government took over basic industries and financial institutions, control went overnight into the hands of the members of the ruling political party. It was reported that the party members had also got the opportunity to get top positions in those nationalized projects (J. Rashid, 1978). The socio-economic reforms of 1960 had cost a huge unrest among the masses in the matters of equality (Burki, 1988). Although Bhutto was the first torch bearer of democracy in the country, by 1974 the departure of reformist leftists from the ruling party showed that Pakistan had not fallen out of the hands of landlords/military/bureaucratic elites (Gustafson, 1976; Kukreja & Singh, 2005).

But as with the previous military and bureaucratic regimes, the same practice of replacing or removing civil servants from their posts on any statement against the government policies had been practiced by the democratic regime. These removals were primarily done on the request of powerful industrialists and landlords\textsuperscript{30}. Bhutto’s nationalization broke some of the 22 families financially, but several of them were also broken in body and spirit, resulting in the disposal of industries that escaped nationalization or self-

\textsuperscript{30} For example, the removal of Chaudhary Zulfiqar, Chairman of Central Bank of Revenue. He was once reported to have lightheartedly said that industrialists were living in a fool’s paradise if they thought their suggestion to tax agricultural income would have been accepted as the agriculture sector was politically stronger than the industrial sector. This one statement became the reason for his removal.
imposed moratorium on new projects (Rehman, 1998). Bhutto mistrusted both the large industrial families and military. He proved this by curtailing the industrial families by nationalizing major enterprises. He also consigned the military to the barracks by assuming the position of commander-in-chief of the armed forces, removing senior military officers from positions of power and selecting General Zia-ul-Haq as the Chief of Army Staff (COAS) because of his reputation for professionalism and lack of interest in politics (Burki, 1988).

In July 1977, General Zia, Bhutto’s chosen COAS, enforced Martial Law, suspended the constitution and banned political activities. On September 17, Bhutto was arrested under Martial Law orders. Zia, after assuming charge, assured the business families that it was safe to invest in Pakistan and denationalized the ginning mills. However, denationalization and privatization were not pursued vigorously until the mid-1980s.

4.1.5 Change of structure of Political Elite in Third Military Regime 1977-1988

History repeated itself when Bhutto chose and trusted Zia-ul-Haq, a situation similar to Ayub’s betrayal of Iskandar Mirza. Whether Bhutto was executed by Zia as a result of political rivalry or if it was a fair judiciary verdict remains disputable. Bhutto’s trial and execution also indicated for the first time the existence of the Judiciary as one other power hub in the country; an institute which could fundamentally change the power structure of the country. Pakistan suffered an abundance of internal and external strife during Zia’s regime. Nevertheless, his policy towards Afghanistan made Pakistan a safe haven for many Afghans who settled in different parts of Pakistan.

General Zia-ul-Haq helped create a political party based in Sindh, Mutahiddda Quami Movement (MQM) (Joint Immigrants Movement) led by Altaf Hussain (currently in
political asylum in Britain). The purpose of this new political party in Sindh was Zia’s attempt to establish a counter political party for the Sindhi people against Bhutto’s PPP which had a strong standing in that province. It became obvious later that the MQM was like the Military’s Frankenstein, an institution that could not be controlled and could possibly change Pakistan’s power structure (Aftab, 1996).

Between 1988 and 1999, Pakistan saw four different parliaments. Although it was the tenure of civilian rule and an electoral process was instituted, the true definition of democracy was not applied. Scholars like Talbot (2009), Kukreja and Singh (2005) and Akhtar (2010) named it a “Mixed Democracy or Guided Democracy”. Both civil and military rulers designed a concept and let flow in society the idea that the nation was not able to follow pure democratic values; therefore they needed to design a unique, customized structure of government for their country. However, what actually persisted was power elite politics of chosen personalities, as well as injustice and inequality (N. Akhtar, 2009). As Shafqat (2009) notes, the Army had clearly declared its desire to share not transfer power, therefore this decade could justifiably be named as that of a Mixed Democracy; Pakistan had had eight different governments (Bhutto, Jatoi, Nawaz Sharif, Mazari, Moeen Qureshi, Bhutto, Meraj Khalid and Nawaz Sharif) between 1988 and 1999.

During this Mixed Democracy period of eleven years, the world also experienced a wave of globalization known as the New World Order (Slaughter, 2009; Ginsburg & Rapp, 1995). Pakistan was entrapped in a debt trap, suffering from repayments of old loans of US$38 billion though managing to keep the economy growing. The country’s total public debt was around Pak. Rs. 1.2 trillion by the end of 1997 (Khan & Ahmad, 1997). The failing economic situation of Pakistan in the 1990s indicated an absence of an institutional framework of governance. As Kukreja and Singh (2005) noted: “The mismanagement of
Pakistan’s economy can be attributed to the reckless behavior of those making and implementing economic policies. The intimately linked economic and political systems are the formidable obstacle to reform. Both are dominated by elites whose self-interest dictates a firm defense of ‘non representative’ ‘unaccountable’ decision making processes”.

Corruption was recorded to be at its peak during this decade when this constant shuffling of government occurred. In Benazir Bhutto’s two tenures, many contracts with energy companies were awarded, some of which were for installations in totally inappropriate locations and the reason provided was that they were planned for future electricity needs, in 2010. However, the government was contractually bound to purchase all the electricity produced. Later, in 1998, when 21 Western companies were investigated by the national anti-corruption agency for alleged bribes to the former government, six companies confessed they had offered bribes. Benazir Bhutto’s husband Asif Ali Zardari in 1989 was alleged to be a major source of these contracts and became infamously known in Pakistan as “Mr. 10 percent”. The charges of corruption leveled against Asif did much to undermine Benazir and weaken the government (Nasr, 1992). As a result, the World Bank sent a special team of investigators to look into these allegations. Pakistan was warned by the governments of the United States, Japan and Canada that these


32 In April 1999, Pakistan’s former president, Benazir Bhutto, and her husband were found guilty of accepting bribes worth US$9 million from Societe Generale de Surveillance (SGS) of Switzerland, sentenced to five years in prison and banned from holding seats in parliament for seven years.

33 Asif Ali Zardari, the husband of former Pakistan prime minister, Benazir Bhutto, transferred some US$40 million through Citibank accounts, of which US$10 million was believed to be from kickbacks on a gold importing contract.(Hawley, Soros & Srinivasan, 2000)
confrontations with energy companies would deter other investors. However, the IMF provided a new loan package in late 1998, conditional on the government dropping charges against the companies. Hawley et al. (2000) shows the links and networks these international elites had with each other and argued that international companies, if caught in a corruption case, would have the support of international financial institutions to safeguard them from any future problems.

While the state was experiencing weak elected governments which were shuffling power between Benazir Bhutto and Nawaz Sharif, government officials were accumulating wealth through corruption. This wealth allowed them to enter spheres of business, either directly or under the name of a relative. As Ali and Malik (2009) note, the rent-seeking and malpractices which occurred primarily in the cotton industry had over-leveraged textile projects though the risks of investors were reduced by transferring much or all of the owners’ equity offshore. Strategies such as the over-invoicing of machinery imports had allowed new investors like Sharif of Ittefaq and Chaudhry of Gujrat as well as some sons of corrupt generals to enter politics. In addition, the military established a strong business holding under the concept of trust and foundation. Currently, the military-controlled Fauji Foundation is the biggest conglomerate in Pakistan, with eight major manufacturing units as well as a strong position in the services sector. Fauji’s participation in the financial, education, transportation and health industries are commendable (Gardezi, 1998; Jalal, 1995).

Zulfiqar Bhutto’s government had remained in office for five and a half years; it ended with the third military coup by General Zia in 1977. Zia’s regime was sustained for 11 years and his death in an air crash created the opportunity for open elections to be held in Pakistan for the second time. Benazir Bhutto, as the daughter of Zulfiqar Bhutto, was considered globally and by the people of Pakistan as a ray of hope for a democratic future.
She, on the basis of her political background and Oxford education, showed good managerial qualities and performed significantly well in mobilizing political support. But she lacked the ability to deal with power elites in the military and bureaucracy, contributing to complex elite contestations. This reflected the inability of the country to get out of the deep shadow of the previous military regime, which lingered on even in Nawaz Sharif’s government, thereby resulting in eight government shifts (elected and care-taker) in ten years (Kukreja & Singh, 2005).

The situation in that era raises the question why political parties were not strong enough to lead the country out of the control of bureaucratic/military elites. This was due to poor political cohesion among these parties and the high degree of factionalism within parties (Hasnain, 2008). The manifestos of the two major parties, Bhutto’s PPP and Nawaz’s Pakistan Muslim League (PML), were basically the same. The members of the National Assembly switched their loyalties between the two parties on the basis of their vested interest of being in the ruling party. A voter would not find any major difference in the political ideologies of these parties. As, Nasr (1992) concluded, the three major reasons for this shuffling of governments in that era were the lack of organizational structure in political parties and weakening of PPP with new people, the continuity of control of landlord elites on their constituencies and the absence of rules to prevent members from switching party alliances while serving as elected representatives.

4.1.6 Pattern of Political Elites from 1999

In military regimes, forceful de-politicization of the public arena, the imprisonment of political figures and banning of public rallies are evident. The military in Pakistan acted in a similar manner and gradually took control of all key institutions of society, from universities to civilian intelligence agencies, public utility services and civil services. The
military created a convoluted web of control over all activities in the country allowing it to develop its own independent economic system. The military’s wide political influence had not merely distorted the democratic process, but earlier periods of military intervention had also created new political divisions (Rose and Evans, 1997). Groups that found themselves benefiting from authoritarian rule were opposed by others, often those linked to mainstream political parties that were sidelined or repressed.

During General Parvaiz Musharraf’s rule (1999-2007), the strategy adopted was one of centralizing power and he introduced a local government plan working under military control. As General Ayub chose the title for himself of “Field Marshal”, Musharraf, when he assumed power on October 12, 1999, opted for the title of “Chief Executive”. And, like Zia, he used the term “emergency” to justify his de facto martial law regime. As Musharraf had acquired power after eleven years of civilian regime, he did everything to win over and maintain the support of pro-military politicians. With the strong support of these politicians who would favored military control, the voice of democracy could be crushed. Musharraf used the National Accountability Bureau (NAB) as to blackmail and threaten politicians; they had to surrender loyalty to the military or be ready to face the accountability process. One well-connected business group, Chaudhary Brothers, who were defaulters of many bank loans, favored the Musharraf government to prevent an investigation by the NAB. Such efforts by the military and state agencies before and after elections allowed Musharraf to ensure his party ruled the country and he took charge as President of Pakistan (Shaikh, 2010).

During the fourth military regime under Musharraf, economic growth was registered. It was a period characterized by domestic economic reforms, political stability, continuation of policies and a massive injection of aid and support by international economic players. With the participation of Pakistan in the War on Terror, the international committee had
committed massive funds and facilitated the inflow of direct foreign investment which helped restructure the domestic economy.

The elections of 2008 were overshadowed by the assassination of PPP leader Benazir Bhutto. She had returned in December 2007, after long exile, to contest the election. The PPP won with much sympathy votes and formed the government in February 2008. In September 2008, Benazir’s husband, Asif Ali Zardari, won the presidential elections, leading to the return of civilian-led democracy. However, analysts saw this as the “return of a corrupt civilian government” (Stachoske 2009). This democratic government was unable to resolve an issue which became the reason for Musharraf’s fall: resolving a conflict between security forces and militants. In fact, the violence by extremist religious groups has worsened and put the security situation in question for international investors and governments.

4.2 Bureaucratic Elite as de-facto Elite

As discussed, in its early days, Pakistan not only suffered from many post-partition issues involving the absence of industrial heritage and problems related to immigrant settlement and land allotment but also from the small number of qualified civil servants at the higher echelons of the public sector. During British rule, the top positions in the civil service were either occupied by British or Hindus. Only about 140 Muslims from among the elite Indian Civil Service and Police Force were willing to be transferred to the Pakistan State Service (Wilcox, 1968). The lack of Muslims qualified to hold senior government positions was obvious at the time of independence. There was only one Muslim in the position of secretary in the entire interim government of India. This led to the speedy promotion of civil servants. Such promotions were not based on proper experience required to perform the responsibilities associated with these important decision-making
posts. The civil servant status in Pakistan was similar to that set by the British government for its bureaucrats, having the same title, *Sahib* (Boss). The Sahib had a say in every matter and his decisions could not be questioned. The Sahibs were constantly criticized for their arrogant behavior and colonial mentality, often described in the National Assembly as the “Brown Englishmen” (Sayeed, 1958). This colonial mindset kept bureaucrats at odds with politicians.

Since Muslims had been marginalized in India, the manpower that came to Pakistan was not skilled and educated enough to hold administrative posts. Hence, in the first decade, power did not reside with any institution but mostly with personalities. There were five dominant personalities who influenced the course of events in the first decade of Pakistan’s history; three were Governor-Generals (Bureaucratic Elites) and two were Prime Ministers (Political Elites) (Burki, 1969). Bureaucratic elites became the most powerful group in the first decade because of the weaknesses of the authority of the central government, which during the transitional time of two governments, retrieved and re-asserted their positions in Karachi, Decca and Lahore.

Wilcox (1968) argued that the political structure and traditions inherited by the newly-formed nation state were “autocratic and vice-regal”. Ayoob (1971) suggested that the well-entrenched position of bureaucratic elites in an infant state was a major factor which further helped to reinforce the autocratic structure of governance. The supremacy of the bureaucratic structure over parliament was evident in the pattern of legislations from 1947 to 1958. The National Assembly was in session for only 338 days, and it passed 160 laws; on the other hand, the Governor-General/President issued 376 major ordinances during the same period. The pattern of elitist politics during the first decade could be described as one of bureaucratic rule, government dismissals, assembly dissolutions, clash of
identity between regional and Muslim nationalism and a system of governance based on collaborative networks of landlords and tribal chiefs (Kukreja, 2003).

One person who can be considered a key personality in building economic alliances between the immigrants, largely from urban middle class and bureaucratic elite, was Prime Minister Liaqat Khan. During the resettlement process, refugees started submitting exaggerated, bogus and multiple claims of their properties left behind in India during migration. According to the 1949 report of the Rehabilitation Department of West Punjab, 80 percent of the 3,000 claims submitted by refugees were either bogus or inflated. Properties left behind by Hindu and Sikh immigrants who left for India, including land, houses, businesses and factories, were illegally occupied by both locals and refugees during the chaotic early months of Pakistan’s independence (Ioib, 2013). The Hindus were a major pre-partition business community, settled in urban centers. Liaqat helped immigrants to settle in urban centers and occupy those expensive properties. Their self-appointed claims opened avenues for mass corruption involving bureaucratic elites. The terms, conditions and guidelines for allotment were frequently amended, sometimes overnight, and migrants often ran into difficulties while attempting to comply with the bureaucratic criteria (Ioib, 2013).

The illegal occupations of evacuee properties, allotments of assumed claims and possession of expensive urban businesses left by Hindu immigrants gave birth to a new Muslim urban middle class. The local gangs and relatives of bureaucratic elites also occupied the abandoned properties. The leaders of the Muslim League, guardians of morality in the newly-born country, turned out to be big beneficiaries of evacuee properties. More than 50 percent of abandoned residential properties and 36 percent of the urban commercial properties and shops were illegally occupied by local residents (Chattha, 2012). The bureaucratic elites were also able to acquire expensive urban assets
by sharing with refugees unauthorized claims. The destitute refugees who settled in those expensive urban business centers later became part of the new trading class or so-called corporate elites of the newly-developed economy.

As a result, morally bankrupted and socially religious newly-found Muslim urban middle class which fraudulently acquired urban properties significantly changed the social structure of the infant state. They lacked business ethics as they had no business background. In order to overcome the guilt of illegally possessing businesses and properties, they started giving generous donations to religious groups which became a source of revenue to breed religious sects. The new source of funding and a sympathetic middle class constituency resulted in a sudden rise of several religious movements during the early post-partition period.

The bureaucratic elites were major beneficiary of these collusions and contestations occurring in the country at this stage of history. This was because, being civil servants, they benefited from the legacy of colonial authority and control over the administrative structure. Other elite groups had not acquired such power at this stage. The major groups in power collusion in the first decade were the bureaucratic, landlord, religious and military elites. Since they were in their development phase, they were to an extent of supporting each other, as one’s actions provided space to another to craft his position in society. These initial collusions helped them to acquire their initial position in society.

4.2.1 Bureaucrats in First Military Regime, 1958-68

Under Ayub’s regime, a complete military takeover of all administrative posts did not occur; rather, a bureaucratic state was strengthened by military support. However, decision-making was handled by senior military elites around Ayub and the bureaucracy.
Even when Ayub sought to provide for some degree of popular participation, he did so within the context of a bureaucratic hierarchy, rather than through the traditional participatory apparatus of parties and interest groups. The reason for this setup was partly due to Ayub’s personal beliefs, the level of support he had from inside the military and the desire of bureaucratic elites to stay in power, despite scandals and proven incompetence.

The bureaucratic elite who had ruled during the decade before the first military regime in 1958 had in fact control over decision-making during the military regime also. The new ruling elite (the military) did not challenge their status, but developed a strong collusion with them. The outcome of this collusion was a strong administrative system as well as the introduction of important legislation. Such laws were violated by the ruling elites when personal contacts and linkages were used to secure access to state-generated concessions and subsidies. Bureaucrats were designing policies, however, the beneficiaries of these policies were determined by bureaucrats who obtained kickbacks. Newly-emerged corporate elites secured benefits from this collusion, mostly in the shape of expanding industrial assets.

4.2.2 Change in Bureaucratic Structure in Bhutto and Zia Regimes

The civil service prior to the Bhutto reforms of 1973 constituted an extremely small, tightly-knit corps of about four to five hundred officers drawn largely from families with a tradition of government service; they did not have links with business but had a background of being associated with landlord families (Papanek, 1967). The paternalistic recruitment and training tradition, as well as the system of rewards, placed bureaucrats above and outside the traditional social order. The bureaucracy considered itself the guardian of the national interest, along with the military elite. Both elite groups favored
policies involving bureaucratic control and regulation of the economy rather than participation of social groups.

The composition of the bureaucratic structure was irrevocably altered following the administrative reforms of Bhutto (Ziring, 1974). The dominant elite in the bureaucracy was a western-educated urban middle class from the time of British India. They were replaced by local lower class party active-workers. This shift has, as Akhtar34 notes, fragmented the civil service format which during Zia’s regime was again sabotaged by the military generals35. As Chaudhary (2011), a former civil servant notes in his autobiographical book, the army officials were fascinated by the powers vested in the administrative and judicial sections of government. Civil servants in these two arms of government had better career opportunities than those in the Pakistan Army. This compelled army officials to occupy administrative posts while in service and after retirement. The benefits accruing to bureaucrats has its roots in the British India civil service structure. The British created the Indian Political Services (IPS). Later, in Pakistan’s Central Secretariat Services (CSS), 66 percent of its staff was from the army and 33 percent from the Indian Civil Service (ICS).

In the bureaucratic structure under Zia, those who secured senior positions, whether a military official or an urban class professional, it was only because they had been obedient or loyal to him. Jones (1985) sums up the situation well: “Under Zia, however, there has been a more extensive military penetration of the administration and industrial public sector, as well as certain par economic sectors. In the Zia system, the senior civil services

34 http://www.tanqueed.org/2014/07/failed-state-or-fragmented-hegemony/

35 Details of the military officials appointed to administrative posts are provided in Footnote No: 54.
seem to be a junior partner of the military, not in numbers, but in the making of policy decisions and in administrative initiatives. At the federal level senior military officers now occupy a large share…of the top bureaucratic posts… which prior to Zia represented a civil service domain nearly impenetrable by serving military officers…. At the provincial level, military officers are also intermixed with civilians in high administrative posts beneath the cabinet, and are detailed down to the divisional and even district level; to ride hard on civil servants or handle law and order problems”.

This trend of inducting army officers into the civil service that started with the Zia regime was continued by all subsequent regimes. Between the two military regimes of Zia (1978-88) and Musharraf (1999-2007) was the chaotic era of a mixed democracy in which no democratically-elected government was allowed by the military to complete its tenure. The primary reason for the fall of these elected governments was their inability to understand the shifting power structure within the military which remained a major decision-maker. There has never been a shortage of sons and sons-in-law of generals, ministers and parliamentarians among civil servants. The hand-picking of personnel for political posts started with the appointment of Nawaz Sharif as a Finance Minister and later Chief Minister in 1983 and 1985 respectively. Hence, the nature of bureaucratic elites today is not similar to that of the 1960s and 1970s. Their importance and contribution to decision-making remains, but they are far more fragmented now.

### 4.3 Political system under the Military Elite

There was a continuous cycle of uncertainty and lack of coherence among the major power elites, despite the fact that coherence and unity amongst them was imperative in the period after Independence to promote development. The reason for these intra-elite tensions can be understood by examining the role of these elite groups during that period. The lack of strong political elites was felt tangibly after the death of Jinnah as he was the
only central common source of agreement between different groups and political alliances. After his death, political mobilization among the representatives of different communities increased significantly. This indicated a sense of political awareness among the people, but in subsequent years, this sense was suppressed by military regimes with the banning of political parties. After 1956, the bureaucratic elite let the task of challenging the political elites be done by an even more organized group, the military.

As Alavi (1986) notes, the bureaucracy and the military were the only two groups that were trained to be elitist by the British. The military and bureaucratic elites represented the urban class of society in that era, and to strengthen themselves more against landlords, they developed ties through marriages as landlords did among themselves (Alam, 1974). But this bureaucratic–military alliance was not always positive. During the first military regime, the Ayub government was convinced that the blame for some of the political unrest had to be shared by the bureaucrats. Within one month of the declaration of Martial Law (October 1958), 272 military officers were appointed in administrative departments and agencies (Burki, 1969). During this time, landlords also kept developing their links with the military-bureaucratic alliance through marriage ties (Kukreja & Singh, 2005). Following these lines of developing links, the newly-emerged corporate elites also developed their position by either owning land in that area or by providing some benefits to bureaucratic elites in the shape of settlements or at the family level by developing marital ties.

The first bureaucratic regime ended when ethnic issues, aggravated over a number of years, flared up between East and West Pakistan in 1958. Iskandar Mirza, an

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36 The Election Bodies Disqualification Ordinance (EBDO) introduced by Ayub did not allow political parties to perform freely during the first military regime.
establishment-backed president, widely lacked the parliamentary spirit, distrusting civilians to ensure the integrity and sovereignty of the country. His presidency was marked by great political instability, civil unrest and immigration problems. He was a great advocate of the “One Unit” scheme; under his rule, all four provinces and states of West Pakistan were merged into one unit in October 1955. On 7 October 1958, Mirza issued an executive decree and a state presidential proclamation abrogating the 1956 Constitution. Parliament and the provisional assemblies were dissolved and the government of Prime Minister Sir Feroz Khan Noon came to an end.

Mirza announced on national radio that he was introducing a new constitution more suited for Pakistan. He believed democracy was not suitable for Pakistan with its 15 percent literacy rate. In 1958, Mirza took the nation into confidence saying: Three weeks ago, I had imposed martial law in Pakistan and appointed General Ayub Khan as Supreme Commander of the Armed Forces and also as Chief Martial Law Administrator. By the Grace of God, that measure which I had adopted in the interest of the beloved country had been extremely well received by the people and by its friends and well-wishers abroad. I had done my best to administer in the difficult task of arresting further deterioration and bringing order out of chaos.

President Mirza and his Army Commander General Ayub Khan had begun the new era with apparent unanimity, which was described as a two-man dictatorial regime that evolved under the “establishment”, and the Pakistan Armed Forces. However, the two held very different views about how to deal with the new situation even though they were

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37 One Unit was a geopolitical program initiated by the government on 22 November 1954. The program was the government’s response to its difficulty in administrating the politics of two unequal areas, East and West Pakistan.
responsible for bringing about the change. This sharing of power soon led to a power struggle between the two men. President Mirza tried to balance the power structure by appointing Ayub as Prime Minister on 24 October 1958. The Cabinet he set up consisted entirely of non-political members. This did not satisfy Ayub who had more powers as Chief Martial Law Administrator. With the consensus of his military generals, Ayub arrested Mirza on 27 October 1958. He was exiled to Britain, where he later died. After the ouster of Mirza, Ayub became the sole power in Pakistan.

4.3.1 Military Collusion with International Elites

Pakistan’s relations with the United States developed against the backdrop of the Cold War. Pakistan’s strategic geographic position made it a valuable partner of the United States to contain the spread of communism. Gardezi (1998) felt that US involvement in Pakistan was also a crucial strategic step to maintain control over the Middle East. The epochal event in this context was the nationalization of the Anglo-Iranian Oil Company by Prime Minister Mussadeq of Iran. The American Central Intelligence Agency (CIA) responded to this action by overthrowing the Mussadeq’s government, a clear signal from Washington of its desire to secure its interests in the Middle East via South Asia.

The other big country in South Asia, India, then followed a non-aligned philosophy under Jawaharlal Nehru. For this reason, the United States started building relations with Pakistan by providing it with military assistance. In response to this, the United States pursued access to air-space and manpower which only the Pakistani military could provide as a means to enter any country in Asia (Brands, 1998). In 1954, Pakistan signed a Mutual Defense Agreement with the United States and subsequently became a member of SEATO (South East Asian Treaty Organization) and CENTO (Central Treaty Organization). Through these treaties, the United States provided economic and military
assistance to Pakistan. In fact, Pakistan is associated with the United States through four mutual security arrangements. In this sense, it has been sometimes termed “America's most allied ally in Asia”. Pakistan is the only Asian country which is a member of both of SEATO and CENTO.

According to Ayub (1964), Pakistan was the only country in South Asia with such military need and thus could be exploited to curb escalating communism and to control the economically fast growing neighbor countries (China and India). As a result of foreign aid, the economy received a positive boost, helping the newly-emerging industrial sector to expand.

4.3.2 Military Dictator and Power Reconfiguration

Porta et al. (1969) is of the view that Ayub’s personality was quite complex. This view is shared by his opponents and followers. At times, Ayub presented himself as a typical military leader who believed in a one strong leader concept; at other times, he reverted to allowing political parties to perform their acts openly. A similar trend was obvious in his support for corporate elites in only West Pakistan; however, he tried at times to support businesses in East Pakistan. For example, his Rural Support Program in 1962-63 poured 200 million Rs. in East Pakistan as compared to 100 million Rs. in West Pakistan. His Rural Support Program provided him an edge which resulted in his win over Fatima Jinnah (sister of M.A. Jinnah) in the 1965 elections. But the majority of his support in 1965 came from West Pakistan while Miss Jinnah obtained much support from the East. Collectively, Ayub obtained 63 percent the popular vote (Sayeed, 1966).

Ayub’s era could be seen as a conscious effort by him to scrap the legal-constitutional systems inherited from the British and to bring in the Presidential system. It remained a federal republic but decision-making was with the President and his advisors (Porta et al., 1969). Ayub drew his support first and foremost from the military; then from the civilian
bureaucracy, the new industrial/entrepreneurial class, and part of the traditional rural elite (both from the large landowners in West Pakistan and the middle-class, basic democrat-types in East Pakistan) (Porta et al., 1969).

Sayeed (1972) argued that the breakdown of Pakistan’s political system was mainly because of output failure, which arose due to conflicts between East and West Pakistan. He claimed that this dissension was attributable to power elites of West Pakistan and their biased policies. These power elites, with some associates from East Pakistan, tried to institute a centralized government. He blamed the bureaucratic and military elites of West Pakistan for the breakdown of Pakistan in 1971.

4.3.3 4.3.3 Role of Military Elite in Controlled Civilian Regime

Benazir Bhutto created a coalition of Political Elites which comprised landlord elites, urban professionals, middle level farmers, women and some industrial labor. Her government did not do much to decrease the military’s control of Pakistan’s power structure. She was allowed to take charge of the Prime Minister’s office after accepting three conditions imposed by the military. The first condition was not to interfere in the administrative and organizational decisions of the military and to serve as a nominal head of the defense committee. Second, she was not to bring about any change in Pakistan’s defense and foreign policies, which she showed by not commenting on the budget allocation to armed forces and on their stance on the Afghan issue. The third was that she was not to participate in the country’s nuclear and missile programs. Nonetheless, from time to time, she did intervene in the internal politics of the military much to the

38 In this study, the urban professionals are those people who play a significant decision-making role in the bureaucracy and corporate sector.
displeasure of the generals. Her replacement of the Chief of Intelligence – ISI, Lieutenant General Hamid Gul, who was very powerful in Zia’s regime as Corps Commander, was not accepted by the Military and was taken as a threat by a civilian leader to their longstanding control of the state (Hossain, 2000; Shafqat, 1996).

Since US policy towards Afghanistan had then shifted towards a peaceful settlement, the top Pakistani military command concluded that they could not let a democratically elected Prime Minister intervene in the decisions of they had taken. In July 1990, the generals conveyed their distrust of Bhutto to be the President. The President, based on his own vested interests and because of a protection guarantee provided by the military, dismissed Bhutto’s government in August 1990 (Shafqat, 1996).

This provided a chance to Nawaz Sharif, whose party had secured a fairly strong position in the 1980s in Punjab, the province with 55 percent of the country’s population, to secure power. Since Bhutto’s government did not devote attention to industrial development and unemployment and inflation were occurring as a result of stagnation, these issues were highlighted and taken advantage of by Sharif. Being an industrialist himself, he paid special attention to the private industrial development. Sharif’s government remained from 1990 to 1993. Bhutto returned as Prime Minster in 1993.

Since 1988, Bhutto had twice been elected and thrown out of government without completing her tenure. So too was the Sharif government, which was ended in 1999 by a military coup by General Musharraf, even though he was being backed by the military (I. Ali, 2004). Sharif’s coalition with the military had provided him with the opportunity to accumulate a huge fortune. His family business (Ittefaq Group) became Pakistan’s second largest industrial group with a worth of US$217 million, about 4000 percent more than its value of US$5.4 million when he had won his first political position at the end of the 1980s.
4.3.4 Musharraf’s Military Regime, 1999-2007

In 1999, Musharraf dismissed the elected government. Following the 9/11 incident in 2001, he was able to improve the economic situation with the help of massive financial support from the United States and other countries. This support was provided to Pakistan for being ally of the countries involved in the “War on Terror”. The uniqueness of the regime of Musharraf, compared to previous military governments, was its relative freedom of speech and expression; for this reason, the regime was considered a “liberal dictatorship” (Schetter & Mielke, 2008).

Musharraf’s regime came to end because of an escalation of religious extremism. This led to mass protests against him. Finally, due to intense international elite pressure, Musharraf proclaimed a six-week emergency in November 2007 (Rohde, 2007). In 2002, Musharraf had in fact condemned all acts of terrorism and took a pledge to combat Islamic extremism. This pledge won him much favor with the West. But this support put Pakistan at risk with respect to its security and sovereignty. The Taliban and Al-Qaida became adversaries of Pakistan. Furthermore, Musharraf’s attempt to fabricate internal harmony among the provinces had failed. The issues of missing people in Baluchistan, terrorist acts by extreme religious groups and the unrest caused by the land mafia in Sindh were some instances of the destabilization within the country which created security issues for investors and international businesses. He later announced elections and resigned from his post as chief of army staff.
### TABLE 4.1: Causes of October 1999 Military Coup

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<thead>
<tr>
<th>Structural Factors</th>
<th>Situational Factors</th>
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<tr>
<td><strong>Internal</strong></td>
<td><strong>Internal</strong></td>
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<tr>
<td>• Attempts to move away from the ‘Troika’(^{39}) model of administering Pakistan</td>
<td>• Attempted dismissal of army chief</td>
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<td>• Factionalism in the armed forces</td>
<td>• Power-seeking officers in command</td>
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<td>• Differences with the civilian government over major national security issues</td>
<td>• Presence of officers radicalized by the Prime Minister’s decision to withdraw troops from Kargil, Kashmir</td>
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<td>• Perception of being undermined by the civilian government</td>
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<tr>
<td><strong>External</strong></td>
<td><strong>External</strong></td>
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<td>• High level of corruption among politicians</td>
<td>• Economic crisis</td>
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<td>• Tenuous political control</td>
<td>• Sectarian violence</td>
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<tr>
<td>• Legitimacy crisis in the civilian government</td>
<td>• Political crises in smaller provinces</td>
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<tr>
<td><strong>International</strong></td>
<td><strong>International</strong></td>
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<tr>
<td>• Influence of international politico-economic pressures</td>
<td>• Destabilizing policies of certain big powers and international financial institutions</td>
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</tbody>
</table>

Source: Khonder (1986, p.130)

Hossain (2000) and Khondker (1986) divided the role of the military in politics into two broad categories, i.e. the corporatist and structuralist approaches (see Table 4.1). The corporatist approach highlights political, social and economic factors and inter-military reasons for military intervention. The structuralist approach emphasizes bureaucratic/authoritarian issues for such interventions. The corporatist approach has further been classified on the basis of three factors, i.e. 1) internal military factors; 2) external military factors; and 3) extra-national factors.

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\(^{39}\) Troika means a combination of three major power elites: political, military and bureaucracy.
4.3.5 Continuity of Military-Bureaucracy Nexus

Bureaucratic and military elites have been self-nominated guardians of the state since independence. Gradually, political parties were created, then abolished or transformed under the shadow of these two elite groups. Whether a civilian or military government was in power, these two elites groups have been the pillars of the state. The military has remained influential in directing the politicians and civilian bureaucrats ‘to ensure the funneling of public funds to its big businesses like Askari Bank and National Logistic Cell (Siddiq, 2007).

During Musharraf’s era, the insertion of military personnel in government posts was high. Retired military personnel were formally assigned civilian roles under the 10 percent quota fixed by former Prime Minister, Zulfiqar Bhutto. However, under Musharraf, military insertion in all important command posts was evident40. The exact number of this transformation of the military elite into a bureaucratic elite is difficult to determine, but Iqbal (2003) notes that 1027 civilian command posts were occupied by servicemen like in the Communication Ministry (98 individuals), the Defense Division (113 individuals), the Defense Production Division (52 individuals), the Ministry of the Interior (88 individuals), the Ministry of Information Technology (58 individuals) and the Ministry of Petroleum and Natural Resources (39 individuals). A further 27 former military personnel held senior positions in the sphere of foreign affairs41 (Gregory, 2008).


41 Lieutenant General Ashraf Jehangir Qazi was Ambassador to the US (later special envoy to Iraq); Brigadier (R) Abdul Majeed Khan, Ambassador, Tajikistan; Major General Saleemullah, Ambassador, United Arab Emirates; Major General Muhammad Hussain Aqeel, Ambassador, Thailand; Lieutenant General Asad Durrani, Ambassador, Saudi Arabia; Vice Admiral (R) Shamoona Aslam Khan, Ambassador, Ukraine; Air Marshal (R) Najeeb Akhtar, Ambassador, Brazil; Major General Syed Mustafa Anwaar Hussain, Ambassador, Indonesia; Lieutenant General (R) Muhammad Shafiq, Ambassador, Bahrain; Major General (R) Shujaat Khan, Ambassador, Morocco; Major General (R) Badarud Din, Ambassador, Brunei; Vice Admiral (R) Khalid Meer, Ambassador, Lebanon;
The military elite had become relatively weaker after Musharraf’s resignation but regained its position and perks by collaborating with the judiciary which continued to put pressure on the civilian government and curtailed its authority. Meanwhile, an increase in terrorist acts by religious extremists, which used violence for their political agenda, had a negative impact on the economy (Nawaz, 2010). In response to curtailing the activities of these terrorist groups, the military elite regained more economic and political space. This was particularly so when it was ordered to conduct military operations in several regions including in the Swat valley and in FATA. In fact, in was under a civilian government that the military successfully improved its economic interests, as compared to direct military rule. A weak government at the center not only increased military budgets, but also gave a nod for the expansion of the military’s economic empire (Fair, 2011).

4.4 Landlord Elite Controlling Power Structure?

In Pakistan’s complex power structure, regime changes have never been a mere conversion of government from one political party to another or from democracy to autocracy; rather, it is a result of radical alterations in the underlying socioeconomic structure. Multiple power elites who were simultaneously active to protect their interests


42 Swat valley and FATA (Federally Administered Tribal Areas) are the areas in Pakistan where security forces have launched a number of operations against Taliban militants.
have combined forces to shape policy shifts. Elite groups with economic and political interests have played an important role in shaping post-partition power struggles. At the start, landlords and bureaucrats were the two important power elites Muslim-majority provinces had inherited from pre-partition India. These two elite groups played an important role in shaping epochal events in the first decade after independence (Maniruzzaman, 1966). But more complex collusions and contestations emerged among other power elites in subsequent regimes.

India and Pakistan won independence in 1947 after the negotiated exit of the British Empire. The agreement to divide India into two separate states, one with a Muslim majority (Pakistan) and the other with a Hindu majority (India), is commonly seen as the outcome of conflict between the “nation’s elites” (Bates, 2011). The immediate post-colonial events resulting from the partition radically changed the socioeconomic structure of the region, resulting in the retreat of market forces and the ascendancy of a traditional agrarian gentry in Pakistan (Ali & Malik, 2009).

As religious sentiments had led Muslims in India to shun Western education, educated middle class Muslims engaged in diverse professional and economic spheres did not emerge. For this reason, the landlord elite was able to dominate the political and economic landscape in the provinces which constituted an independent Pakistan. The other significant group from the Muslim majority provinces was the bureaucratic elite. Wilcox (1968) argued that the participatory democratic culture of British colonial rule was limited to the great port cities while rural India and the provinces were governed autocratically. He suggested that Pakistan inherited rural areas and the rural idiom of politics; for this reason.

At the time of independence, the agricultural sector employed a vast majority of the labor force. Landlords who owned large agricultural estates owned not land, but villages, as
well as the villagers; and, hence, a majority of votes (Wilcox, 1968). Furthermore, most of the feudal lords were related as a result of inter-landlord tribal marriages which made them one big family. Their political and economic influence at the local level allowed them to act as a powerful lobby in national politics. Because of their influence, no regime, military or civilian, was ever able to impose a tax on income from agricultural resources.

The partition had resulted in massive riots followed by the migration of millions who had left their homes, land and personal property to seek refuge. The newly-established state had seven million refugees to feed and shelter. This was the first event which pointed out the need for an industrial infrastructure to cater to the needs of the migrants. Liaqat Ali Khan, an Urdu speaking immigrant, became the first Prime Minister. He lacked influence in the traditional power structure, then comprising landlord and bureaucratic elite groups. In order to create his political constituency, he played religious and ethnic cards. He installed Urdu-speaking migrants in key administrative posts and declared Urdu (a language not spoken in any province) as the national language. He was the first to deviate from the concept of adopting the British model of a democratic state and introduced the “Objectives Resolution”, a prelude to future constitutions, to form an alliance with religious groups. Later, he visited the United States, setting the course of Pakistan’s foreign policy involving closer ties with the West, though he ignored the invitation of neighboring Russia. He was assassinated in 1951 and his assassin was shot on the spot by security forces. The question of who was behind his murder remains unanswered. However, it is widely believed to have been planned and executed by rival landlord elites.

Landlords being landowners also held political positions and exerted influence in key regions where peasants were voters. The power struggle at the local level continued between landlords and bureaucrats. Jinnah appointed civil servants as governors in all provinces, but after his death and Liaqat Khan’s assassination, bureaucrats took control
of all major decision-making posts. This provided the bureaucrats a chance to become political leaders and to establish their own political parties like that by Ghulam Mohammad (Sayeed, 1958).

**4.4.1 Bureaucracy with Landlords**

A majority of the leaders of the Muslim League of united India, apart from Jinnah, were influential landlords. The secretary of the Muslim League was Liaqat Ali Khan; the President of the Uttar Pradesh (UP) provincial Muslim League was Nawab Ismail Khan; and in Punjab, it was Nawab Mamdot. In the 1950s, Maniruzzaman (1966) considered landlords and businessmen as major power elites. He termed the landlord elite as the “direct” ones on the basis of their control over major agricultural areas and for their capacity to influence voting trends among peasants during elections. In the 1955 provincial assemblies in Punjab and Sind, 80 percent of the members were landlords as these two are the major agrarian provinces (Ahmad, 1959). A similar situation prevailed in the national assembly (see Table 4.2).

**TABLE 4.2: Professional Classification of 2nd National Assembly Members (1955)**

<table>
<thead>
<tr>
<th>Professional Classification</th>
<th>West Pakistan</th>
<th>East Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Landlords</td>
<td>28</td>
<td>-</td>
</tr>
<tr>
<td>Lawyers</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>Retired officials</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Industry and Commerce</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>-</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Ahmad (1959)

Table 4.2 indicates that in 1955, in West Pakistan (current Pakistan), out of 40 seats, 28 were occupied by the landlords and there were only four industrialists. The then
government tried in vain to introduce land reforms. Prime Minister Suwarwardy was a Bengali politician and had to face the withdrawal of many of his allies who were landlords because of the land reforms he was committed to implement. In West Pakistan, 0.1 percent of the total landowners, about 6,000 people, owned land to the extent of 500 acres or more (see Table 4.3).

<table>
<thead>
<tr>
<th>Average area owned</th>
<th>Percent of owners</th>
<th>Percent of land owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 or less</td>
<td>64.5</td>
<td>15.0</td>
</tr>
<tr>
<td>5 to 25</td>
<td>28.5</td>
<td>31.7</td>
</tr>
<tr>
<td>25 to 100</td>
<td>5.7</td>
<td>22.4</td>
</tr>
<tr>
<td>100 to 500</td>
<td>1.1</td>
<td>15.9</td>
</tr>
<tr>
<td>500 and above</td>
<td>0.1</td>
<td>15.0</td>
</tr>
</tbody>
</table>


4.4.2 Landlord Elite control under Military Regimes

The changes in government led to a mere readjustment of coalitions among landlord family members who were involved in politics. Their control of politics and power structure was so strong that when newly-emerged industrialists started gaining pace in society, the landlords formed a political party against them, the Republican Party. This party was a pure class-based group, put together to protect the vested interests of landlords (J. Rashid, 1978).

Bhutto’s regime was persistently questioned for having been trapped and led by landlords, even though his party claimed to support and protect the rights of peasants. After Bhutto’s fall, although Pakistan was under military rule, in reality the landlord elites remained influential by maintaining an alliance with the local bureaucracy. This became obvious
when non-party elections were held under Zia in 1985; the landlords emerged as the leading elected force. Despite an eight year military rule by Zia, this power configuration involving landlord elites and the bureaucracy remained in place. Interestingly, this collusion between landlords and bureaucrats helped the military government survive as ruling elites.

Under Zia, feudal elites, lawyers/professionals and business groups dominated the federal cabinet. In Prime Minister Junejo’s cabinet, landlords, professionals and business elites had fairly equal representation. In terms of interest group representation, his cabinet could be considered most representative. The first Benazir cabinet (1988-1990) was dominated by landlord elites and lawyers/professionals. The second Benazir cabinet (1993-1996) was over-whelming dominated by landlord elites. Interestingly, the middle class, which were not adequately represented in the national assembly (NA) were equally under-represented in the Benazir cabinets. Nawaz Sharif’s cabinet (1990-1993) had much business group representation (9), though lawyers/professionals (12) and landlords (12) were significantly represented. The second Nawaz Sharif cabinet (1997-98) was extremely narrow-based. It was overwhelmingly dominated by professionals and business groups, though the size of landlord elites was not insignificant. However, representation of the middle class remained marginal in all the federal government cabinets between 1985 and 1998 (see Table 4.4). The feudal/tribal origins of parliamentarians and their dominant presence in federal cabinets is the reason why there was feeble commitment for democratic norms.

Table 4.4 indicates an interesting division of national assembly members according to profession. In spite of active role of bureaucrats and military officials in power contestations, the assembly’s representation was still dominated by landlords; there was more than 50 percent participation of landlord elites after each general election. The
percentage participation of businessmen was always below 20 percent after all elections. Landlord elites have always represented the masses of each area, which is logical as Pakistan is an agrarian economy and geographically most of these areas are rural.

**TABLE 4.4: Professional Classification of National Assembly Members, 1985-2008**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Landlord/Tribal</td>
<td>157</td>
<td>156</td>
<td>106</td>
<td>129</td>
<td>126</td>
<td>110</td>
<td>125</td>
</tr>
<tr>
<td>Businessmen</td>
<td>54</td>
<td>20</td>
<td>38</td>
<td>37</td>
<td>39</td>
<td>43</td>
<td>57</td>
</tr>
<tr>
<td>Urban Professionals</td>
<td>18</td>
<td>9</td>
<td>46</td>
<td>26</td>
<td>32</td>
<td>45</td>
<td>43</td>
</tr>
<tr>
<td>Religious Leaders</td>
<td>6</td>
<td>15</td>
<td>11</td>
<td>8</td>
<td>3</td>
<td>68</td>
<td>20</td>
</tr>
<tr>
<td>Retired Military Officers</td>
<td>-</td>
<td>7</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>207</td>
<td>207</td>
<td>207</td>
<td>207</td>
<td>207</td>
<td>272</td>
<td>248</td>
</tr>
</tbody>
</table>

Source: Adopted by Shafqat (1999)

The third largest group in the NA has consistently been urban professionals who comprise retired bureaucrats, lawyers, doctors, engineers, journalist, etc. They belong primarily to the middle and upper classes of society. Their representation in an NA has always been about 15 percent, except in 1988 when the elections were convened under General Zia. As discussed, his regime did not support liberal middle and upper classes.

One interesting insight from Table 4.4 is the massive increase in the religious elite in national assemblies after the 9/11 incident. Although religious elites are influential and can shape the opinions of the people about government policies, surprisingly, the electorate did not overwhelmingly support them as their political representatives in the assemblies until 2002. They consistently captured about a dozen seats in national assemblies, less than 5 percent of total assembly seats. But after the 9/11 incident, as Pakistan became an ally of international elites in the “War on Terror”, instead of a
decrease in their representation in assemblies, there was a huge increase in the number of religious elites. In 2002, 25 percent of the total national assembly members were religious elites. However, this number decreased to 7.5 percent in the 2008 elections. This abrupt increase in religious elites in assemblies indicates the intensification of militancy during the regime of General Musharraf.

During the decade after the year 2000, landlord elites benefited from massive price hikes in agriculture production and became the major consumer of automotive, electronics and household items as well as electricity. During this decade, landlord elites dominated decision-making involving government policies, having secured their political position, and diverted funds for rural electrification and gas supplies and communication network development.

### 4.5 Religious Elite: A Game Changer?

Pakistan is the only country besides Israel to be formed based on a religious identity. The idea behind a separate state was that it served as a means to lift the economic conditions of Muslims who were not offered equal opportunities in Hindu-dominated India. While religious sentiments became the chief reason behind the creation of a separate state, religious elites have never been seen as major power players in the political scene. This is because religion has split members of this society, rather than unifying them (N. Akhtar, 2009).

Although all major religious groups opposed the idea of a newly-created country after independence, religious leaders like Moulana Moududi of Jamaat e Islami (JI) and Mufti Mahmood of Jamiat Ulama-i-Hind (JUH) became part of the political game. Religious groups were unable to secure political positions, but played an important role in providing
marginal support where contests between political rivals were narrow. They were thus in a position to bargain for some concessions in return for strengthening the position of other power players, particularly the military rulers who lacked any political constituency. The role of the religious clergy became important following the Kashmir conflict when these groups helped state actors to recruit “warriors” using the slogan of *Jihad* (Holy War).

Military elites allowed religious sentiments to flourish inside the institution, which at the beginning was considered to be a secular and national defense force. The rising influence of religious soldiers who acted as “custodians of religion” rather than professional soldiers resulted in adventures which led to war with neighboring India. However, Moududi of JI, the first one to oppose Jihad in Kashmir, later became an ally of the military establishment. JI also participated in suppressing an independence movement in Bengal. Later, the 1953 riots also showed their strong role in the power game, fanning the flames of anti-Ahmadi sentiments to let the army intervene in civil life in the name of re-establishing order, resulting in the first military coup in 1958 (Akhtar, Amirali & Raza, 2006).

Numerous studies, including those by Akhtar et al. (2006), A. S. Ahmed (1983), Tanwir (2002) and Ziring (1984), note that the religious scholars of united India were not in favor of this partition initially; in fact, even the Muslim League’s leaders did not belong to the areas which later became part of Pakistan. Religious parties were of the opinion that partition would have divided the power of Muslims of united India. There is considerable evidence that Jinnah, for all his brilliance, could not have achieved Pakistan had not the two cries of “Islam in Danger” and “Pakistan an Islamic state” been raised. Nevertheless, attempts to Islamize the constitution have often divided the people (Sayeed, 1963).

Political elites and religious leaders have always been in dispute about giving the Pakistan state a secular image. Although in 1956 the country was given the official name of
“Islamic Republic of Pakistan”, the secular forces favored military and civilian regimes rather than allow for a pure Islamic state. This debate about Pakistan being Islamic or secular was much articulated during General Zia’s regime, unconsciously strengthening the politics of Islamization. Since military leaders needed the support of minority ethnic-based political parties to offset the mainstream parties, Zia used this as a tool to strengthen his own government. The situation was similar with another general who would come to power, i.e. Musharraf, though he used religion to suppress extremism.\footnote{Musharraf’s stance towards religious elites will be discussed later in this chapter.}

4.5.1 Religious Elite in Zia’s Regime

The idea of a state dominated by Muslims where they could live together turned out to be an unrealistic dream during. Numerous tensions ensued during the twenty years after independence and culminated in a country further divided in 1971. However, this notion of religion as a driving force for controlling the masses was more strongly utilized after 1971, becoming a more powerful decisive force.

After 1971, the primary beneficiaries of the power reconfigurations were religious-political parties. Islam was used by interest groups in Bhutto’s government against him and in Zia’s regime as a source to uphold the government. The Islamization process promoted by Zia contributed to the emergence and stability of many religious parties. Pakistan had been in a proxy war with the Soviet Union in Afghanistan. Then, a war commenced with the Taliban in Afghanistan and inside Pakistan’s borders, leading to an alliance with the United States. Zia promoted Islam primarily to serve his own interests. Religious parties had had links with the state during the Zia period, but were at odds with each other (Hussain 2006). Meanwhile, the Afghan war that raged during the Zia regime.
fueled this Islamization process even more in Pakistan as it was considered a battle between the Islamic *Ummah* (nation) and the communist world.

Musharraf, on the other hand, was able to develop a nexus with religious elites on the basis of the threat and power of extremist groups. However, his ties with religious elites were not well developed and eventually became one of the main reasons for his downfall. He had focused on establishing a strong liaison with international elites and after 9/11 showed his alliance with the western world in the war against terror which was not considered as Pakistan’s war. By becoming allied with the western world and by allowing the US army to use his base camps and ports to act against the Taliban in Afghanistan, he put Pakistan’s security at big risk. Issues like the Lal Masjid\(^44\) and Bugti operations\(^45\) in Baluchistan forced him to sign an NRO (National Reconciliation Ordinance) with Benazir Bhutto which let her come back to the country after years in exile. As international elites sensed the growing agitation against him, they compelled him to leave his position (Nelson, 2009).

Although, as discussed earlier, one major reason for the creation of Pakistan was religion, during elections, the people have never supported rule by religious leaders. In all elections that have been conducted (see Table 4.4, pg. 136), the religious-based parties have secured very small representation in governance structures. However, the role of religious elites as opinion-makers and as an elite group which is used by the ruling elite (primarily

\(^{44}\) The Lal Masjid (Red Mosque) Operation was carried out by Pakistani armed forces against clerics and students in Islamabad in July of 2007. It was a confrontation between Islamic fundamentalist militants and the government.

\(^{45}\) Bugti was involved in a struggle, at times armed, for greater autonomy for Baluchistan. The government accused him of keeping a private militia and leading a guerrilla war against the state. On 26 August 2006, Bugti, along with some army personnel, was killed when his hide-out cave collapsed in an unexplained explosion. The accounts of what caused the explosion differed. His death lead to widespread unrest in the area and a surge in nationalist sentiment in Baluchistan.
the military and politicians) to sustain their regime chaos is extremely evident. The percentage of votes cast for religious parties in all elections until the mixed democracy (1989-98) period was always less than 3%, though surprisingly in the 2002 election it went up to 11%. But this victory of the religious alliance party, the Mutahida Majlis Amal (MMA, or Joint Action Organization), was seen as a reaction to American policies in the region (Hussain 2002). Azeem (2002) saw this electoral result as a reaction to the feudal lords and the landed and industrial aristocracy. However, Nadeem (2002) has taken it as anti-establishment vote. The religious elite tried their luck in the political scene by developing inter-elite collusions among themselves, such as through the establishment of the MMA, a joint venture involving two main religious parties, Jamaat e Islami (JI) and Jammat e Ullma Pakistan (JUP) that ran in the 2002 elections.

The reason why the people did not accept religious elites as part of the political elite can perhaps be due to events that occurred during the time of independence. Political elites like Jinnah were western-educated and repeatedly rejected rule under ‘Mullaism’ (Qureshi, 1972, 1974). Jinnah coined the ‘two nation’ theory to make the Pakistan Movement strong. In reality, however, he always emphasized the need to have a separate homeland for Muslims, ruled by an educated and enlightened community with western as well as religious education.

4.6 International Elites and Power Reconfigurations

External foreign assistance to Pakistan was highest in the first half of the 1960s. Table 4.5 indicates the dependency of Pakistan’s economy on external assistance which increased massively in the first twenty years. In 1949-50, the percentage of GNP of external economic assistance was 1.3, which increased to 6.6 percent in 1964-65, when Pakistan was at war with India and military assistance from the United States had
increased; by 1970, it rose by 3.8 percent. Of this economic assistance, an average 35 percent was gross investment.

**TABLE 4.5: External Economic Assistance to Pakistan, 1950-70**

<table>
<thead>
<tr>
<th>Years</th>
<th>% of GNP</th>
<th>% of Foreign payments</th>
<th>% of Gross Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949-50</td>
<td>1.3</td>
<td>-</td>
<td>37.6</td>
</tr>
<tr>
<td>1954-55</td>
<td>2.5</td>
<td>-</td>
<td>28.0</td>
</tr>
<tr>
<td>1959-60</td>
<td>2.8</td>
<td>(1960-61) 28.5</td>
<td>39.7</td>
</tr>
<tr>
<td>1964-65</td>
<td>6.6</td>
<td>(1964-65) 38.3</td>
<td>37.9</td>
</tr>
<tr>
<td>1969-70</td>
<td>3.8</td>
<td>1969-70) 42.8</td>
<td>32.1</td>
</tr>
</tbody>
</table>

Source: Economic Surveys of Pakistan

The changing diplomatic strategy of the United States and the western world to the idea of recognizing military governments in Asia was a matter of much significance in South Asia. However, in Pakistan, the military elite had been using militants to further their domestic and foreign influence. On one hand, the military was half-heartedly conducting operations against selected militant groups; on the other hand, it had been supporting several groups which were involved in cross-border attacks on the US and NATO forces in Afghanistan (Murphy & Malik, 2009).

Although the US government had consistently proclaimed its support of democracy in Pakistan, financial assistance from America into the country was high. From 2001 to 2011, US aid to Pakistan was almost US$22 million and two-thirds of it was channeled to the military and security-related measures; the rest was for socioeconomic programs (CRS Report 2011). While the US government had criticized the coup by General Musharraf, it also developed a close alliance with the military ruler (Talbott, 1999). Graf and Wurm (2013) concluded that promoting democracy in Pakistan was never an important goal for the major donors like the United States and Germany. It was only due
to growing domestic pressure that Musharraf was compelled to initiate a transition to civilian rule.

By 2007, several studies published by the military and academics provided evidence indicating support of militant groups by the military elite and intelligence agency ISI (Haqqani, 2010; Fair, 2011; Cohan, 2003, Hussain, 2006). The evidence collected was presented to President Musharraf and Prime Minister Shoukat Aziz, about their dual policy, at high profile meetings involving NATO and the US officials. After the US Senate had been privy to presentations by high profile policy analysts and the Pentagon on this issue, this led to a drastic change in America’s foreign policy. Although Musharraf was praised by the international elite community for his role in the war on terror, the frequency and fierceness of sectarian terrorism continued to rise.

This sectarian conflict in Pakistan was also a consequence of the military government’s policy of marginalization of secular democratic forces. Despite his close alliance with the United States, Musharraf continued to rely on the religious elite to counter the liberal opposition. The politics of expediency was a major factor in his government’s failure to curb religious extremism and sectarian forces (Hussain, 2008). Rizvi (2005) argued that in order to protect the professional and corporate interests of the top brass, the military had been hindering the process of creating participatory political institutions. The wrangling of powerful groups, such as the military (Military elite), religious parties (Religious elites) and foreign players (International Elite) such as Saudi Arabia and United States, had had a major role in the rise of religious terrorism in Pakistan (Murphy & Malik, 2009).

The change in US thinking contributed to a sudden deterioration in the rating of Pakistani bonds, Treasury bills and risk profile, which resulted in a sharp increase in interest rates on borrowing. FDI, the engine of growth in the previous decade, immediately dried up
and US aid packages were delayed and suspended, resulting in an unprecedented economic collapse. The stock market, which was trading at 15000 points declined to 9200 points (Lodhi, 2008). The KSE-100 index registered a huge loss of 58.3 per cent, to close at 5,865 points by December 2008 (see Figure 4.1). Development projects were stalled and foreign exchange reserves declined sharply.

Source: State Bank of Pakistan and IMF

**FIGURE 4.1:** Pakistan’s Trade and Current Account Balance (2003-2008)

Despite efforts by the government to establish economic ties with China, this did not materialize because of local unrest. Pakistan’s second port remained dysfunctional due to ethnic unrest which was believed to be supported by international elites to curtail Chinese economic interest (Malik, 2012).

### 4.7 Emergence of New Influential Groups

During Musharraf’s era, a relatively new group emerged, one previously dependent on the military elite: members of the judiciary and legal profession. The most important step taken by the judiciary involved scrapping the privatization deal of Pakistan Steel Mills
Corporation, which proved to be a massive blow to foreign investors. The judiciary also opened political cases against Musharraf regarding his role as president-in-uniform and his eligibility as a prospective candidate for the office of president of Pakistan. Similarly, the judiciary, on the behest of the international elite under its *suo moto* jurisdiction, initiated a judicial review of the national reconciliation ordinance (NRO), an agreement between Benazir Bhutto and Musharraf. This political uncertainty and reduction in FDI had caused both political and economic difficulties, putting the military regime under much pressure (Abbas, 2010).

Left with no choice, Musharraf decided to sack the judges who were playing the role of economic hitmen at behest of the international elite. The sacking of the judges of the superior courts led to widespread protest by lawyers. The international elite played the role of a mediator, bringing political and civil society groups into contact with the lawyers’ movement, thus converting it into a mass movement (Ahmed & Stephan, 2010; Phelps, 2009). In the military, apparently a singular unified unit, its intelligence agency was suspected of intentionally closing an eye to foreign help that the lawyers’ movement was receiving (Nelson, 2009).

Given this situation, the political elite decided to exert further pressure on the besieged President Musharraf. Benazir Bhutto’s PPP, the largest political party with massive street power joined the lawyers’ movement besides other political, religious and other civil groups. In order to neutralize the lawyers’ movement, Musharraf struck a deal with Bhutto to withdraw all political cases against her. Musharraf also agreed with Bhutto to shed his uniform before the presidential elections. The deal so struck included the return of self-exiled Bhutto after the general elections.

However, finding a besieged military dictator who had shed his uniform, Bhutto decided to return earlier and lead the campaign during the general elections. Her return put further
pressure on Musharraf to allow another rival to return, i.e. the former Prime Minister, Nawaz Sharif. Nawaz’s return was demanded by Saudi Arabia, an important international elite who had been exerting pressure on Pakistan’s internal affairs. The return of Nawaz and the massive welcome gathering he received, comprising over two million people, in Karachi made Bhutto realize that the deal with the military general was not worth it and her party could have won the elections without the General’s support.

Interestingly, during the same year, 2007, a coalition of thirty five militant groups formed Pakistan Tahrir e Taliban under the leadership of Bait Ullah Mahsud and started suicide attacks in the country. These attacks resulted in the further collapse of an already deteriorating economic, political and social structure. In a similar attack, believed to involve the military, Bhutto was assassinated during a public rally. The reaction to her assassination led to tensions in Sindh province and the port city of Karachi, further undermining the economy. The political uncertainty that ensured caused economic activity to completely collapse (Gul, Hussain, Bangash & Khattak, 2010; Rosas-Moreno & Bachmann, 2012.

4.8 Conclusion

After twenty four years of independence, marked by several changes in government and three wars with India, Pakistan was divided into two distinct countries. Those years consisted of one bureaucratic regime (1947-57) and two military regimes (1957-71). A detailed analysis of the politics of Pakistan’s different regimes indicated an important point about Zia’s military regime: the complete reconfiguration of the power elites. In the

Bait Ullah Mahsud was a leading militant in Waziristan, Pakistan, and the leader of the Tehrik-i-Taliban Pakistan (TTP).
initial years, elite groups which led the rest were those with a strong institutional backing. Although other elite groups also strengthened their standing, they were not been able to emerge as the ruling elite due to their internal lack of cohesion. Intra-group contestations, in the shape of regionalism, undermined the landlord and political elites of East and West Pakistan. Similarly, religious elites were undermined by the imposition of Shariah law since they were not able to come to a mutual agreement about the role of Islam in the country. So bureaucratic and military elites controlled the state and both work together to strengthen their position in the power game.

General Yahya’s takeover of government from General Ayub was an example of a complex intra-military power shift. Later, Yahya transferred power to Bhutto, while refusing to do so to Mujeeb, an example of control of the military even after an ostensible power transfer to politicians. Bienen and Morell (1974) have noted the many gradations of civilian-military relations and the flux in the determination of power between the military, bureaucrats and civilian politicians which yielded systems that can be considered as hybrid or mixed rather than as clear manifestations of a military or civilian type. These transitions from a complex inter-military rule to relatively civilian government rule are a depiction of transition from one mixed system to another mixed system.

However, the military takeover of the Zia regime, from 1978-88, changed the structure of Pakistan’s political system. This regime encapsulated a massive international elite, bonded by a desire to deal with the Afghan problem along with issues such as colossal arms and narcotics trade. To divert attention from this major act, Zia used the religious elite to propagate Islam, a factor that worsened the situation. Since then, the state has been in constant struggle to define the line between democracy and autocracy.
Hoffman (2011) argues that if Pakistan had had any form of democracy, it was primarily a “temporary” one, introduced by authoritarian military regimes to avoid the long term cost of letting democracy prevail. The transition from military to democratic regimes and vice versa has been categorized into three major approaches, i.e. the diffusion approach, the democracy by default approach and the cost benefit approach. Hoffman considered the third approach to be most relevant in case of Pakistan and argues that the military maintains this approach knowing that the chances of democracy prevailing long are quite negligible. The factors and regimes that helped institute democracy also let the system again transit to one that was authoritarian.

If Hoffman’s (2011) cost benefit approach is only applied to analyze the two democratic and authoritarian regimes of 1971 to 1988, it is evident that during a period of democracy there was more equal distribution of wealth which hindered the rise of corporate elites. These elites benefited most when significant economic development occurred under the first military regime, a period also of unequal wealth distribution. Pakistan’s foreign policy, for the first time, seemed to extricate the country from the biased control of international elites as foreign loans were now being settled. Pakistan’s debt had mounted from US$97 million in June 1959 to US$3.6 billion in December 1971. The total outstanding debt with a consortium countries and international agencies had totaled US$3472.196 million, of which West Pakistan had owed US$2362.831 million and East Pakistan the rest. Bhutto started with the practice of rearranging debt repayment as a form of short-term debt relief.

\[\text{Footnotes:}\]

47 In June 1965, seventeen countries and agencies were providing financial aid to Pakistan. The leading lender among them was the United States (3.7 billion Rs.), followed by the IBRD (1.4 billion Rs.), IDA (1.3 billion Rs.) and West Germany (961.7 million Rs.) (Brecher & Abbas, 2005, pg.59).

48 This debt relief made with consortium countries was valid until 30 June 1973.
However, M. Hasan (2000) notes in his inquiry of the Bhutto years that the strong stance which Pakistan’s Finance Ministry had used suddenly changed in mid-1974 when Bhutto started issuing sudden orders of retirement or dismissal of his party fellows who had adopted a hard stand against international financial institutions. He recruited many political administrators who were anti-leftist and retired civil servants who had served in Ayub’s military regime. Bhutto introduced land reforms but was unable to implement them completely given he had a battle here with powerful landlords. He had, however, won the battle he had with corporate elites by nationalizing their businesses.

What made Bhutto change his attempt to deal with unequal wealth distribution? Bhutto had lost his power by mid-1974 to the “establishment”, including the military intelligence which had sabotaged him completely. This struggle by civilian governments to sustain itself would remain a core problem. The interference of the military was justified on the grounds of security issues, to ensure economic stability and control social unrest. In reality, a complex triangulation of power elites colluding and contesting with each other to safeguard their own vested interest was being played out.

54 Rahim, Khar, Khursheed Hasan Meer and Mubashar Hasan (pg 277, Hasan 2000)

50 Aziz Ahmad, a senior bureaucrat, was appointed by Ayub to control East Pakistan. Aziz was appointed by Bhutto as Secretary General of the Ministry of Foreign Affairs. Anwar Ali was Interior Secretary as well as Director of the Intelligence Bureau in Ayub’s regime, he was recalled by Bhutto to re-organize the Intelligence Bureau (M. Hasan, 2000, pg. 264-266).

51 The “Establishment” refers to a powerful military-dominant oligarchy, including the intelligence community. This group of individuals, while not exclusively military, were key decision-makers about major public policies ranging from national security to the defense and the use of intelligence agencies.
Bhutto’s democratic regime was a new populist style of governance with a modes operandi of “deliberate use of state power” and “planned state intervention” involving a much more active role by in relation to society and its subjects; he, in fact, sought to reshape the economic and political landscape of Pakistan (Shafqat 1997). In sharp contrast to Ayub’s elitist approach, Bhutto reached out to the masses, aroused their feelings and attempted to re-shape the way they viewed the role of the state (Shafqat, 1996). Strategically speaking, Bhutto’s biggest mistake was his attempt to keep the military only partially out of governance. In his brutal suppression of labor unrest and language riots, and even more in his campaign of political expropriation against the Baluchistan autonomy movement, which escalated into a civil war from 1973 to 1977, Bhutto found himself relying heavily on the army. This allowed the military to again enter the political corridors. As some have noted, a war-making army was back to state-making (Siddiqi, 1996; Wilke, 2001).

On the other hand, the military regime of General Zia was accompanied by an open access to international elites who influenced the country’s policies. Zia allowed for US intervention, a country keen to play an active role in Pakistan’s policies. Zia used religious elites under the name of Nizam e Mustafa (System of Prophet) to sustain his control. As he took charge, he established Shariah courts in 1979, introduced Zakat rules in 1981 and instituted a Majlis e shoora in 1982. He strengthened his presidency by making parliament amend the constitution to give him more power. His Islamization endeavor was not only backed by religious elites, but the international elite too.

In 1979, when the Soviet Union invaded Afghanistan, it changed US policy towards Pakistan for the next decade. This created an avenue for Zia to rule Pakistan with the help of heavy inflow of US funds. This included a US$3.2 billion aid package by President Jimmy Carter, ostensibly as economic and military assistance. With this support came
certain demands. Zia had to open its borders to Afghan’s Mujahedeen who were to be trained in American military camps in Pakistan to take on the Soviets. This was the landmark political-military deal which changed the canvas of Pakistan’s political and economic structure. It brought in foreign assistance along with many problems such as Afghan refugees, Islamic extremism, ethnic diversity, security dilemmas and a proliferation of economic crises which have left Pakistan with serious internal issues. These problems still prevail. Gardezi (1998) notes that “a decade of General Zia’s US supported regime did much harm to Pakistan’s civil society, ruthlessly undermining political and judicial institutions, violating civil and human rights and oppressing women in the name of Islamization of civil and criminal codes. Moreover, the regime’s involvement in Afghanistan’s civil war left the country with a legacy of gun running, sectarian violence, drug trafficking and an immense refugee burden”.

When comparing the Bhutto and Zia regimes, an important fact emerges; Pakistan needs to come out of the shelter of international elites. Pakistan is at a disadvantage in deals with international elites because, first, its land and resources are used by foreign forces for their vested policy interests. Second, such domestic-international alliances serve as an avenue for military elites to sustain their rule. However, this can only be achieved if all internal power elites work in cohesion. The contestations between political and military elites have led to a discontinuity of stable policies which could have taken the country out of its economic and social crises.

Pakistan has never enjoyed much democracy. Politicians ought to have been saddled with this huge responsibility, but in Pakistan’s case elites in power were from the bureaucracy, like Ghulam Mohammad and Iskander Mirza, and the military, like Yahya, Ayub, Zia and Musharraf. Even when not directly ruling the country, military elites played decisive roles in many political and economic aspects (Cohen, 2002). With about 650,000
personnel military accounting for about one quarter of the annual budget, it has massive economic influence, and it is linked to the influential landed oligarchy (Graf & Wurn, 2013).

During the 11 year Mixed Democracy period four elections were held but none were free and fair. The outcome of each was predetermined by the generals in command and the inter service intelligence (Haque, Burki, Hasan, Hasan, Hussain & Ikram, 2006; Burki, 2008). Political elites belonging to all parties joined Benazir Bhutto, due to her excellent credentials, but her liberal impulse and probity were subverted by her husband Asif Ali Zardari who undermined her government. On the other hand, Nawaz Sharif was a progeny of the generals. He was trained and reached high office under the shelter of a dictator, General Zia. Sharif was fully aware of all the need to network, particularly with the military in order to rule. When Sharif tried to bypass the army and become the supreme power source, the military’s chief, General Musharraf, overthrew him as Prime Minister. Sharif was sentenced to life imprisonment on hijacking and terrorism charges. He was then sent into exile, in Saudi Arabia.

Though Musharraf took over the government under the plea of safeguarding the country from economic instability, a number of reasons led to this military coup: Sharif’s rigid stand towards the National Security Council (Khan, 2000); military dissatisfaction towards government’s stance on Kargil conflict (Mazari, 2003); the forced resignation of a general, Karamat, seen as a deliberate act by Sharif to create a rift between government-controlled ISI and the military intelligence (Chenngapa, 1999); and his increasing intent to take the military out of decision-making processed and governance (Burki, 2008).

Musharraf followed the same techniques of governance as the general’s in previous military governments, including bringing in new politicians from the grassroots system. This he achieved by introducing the localization of government; he named this the
“Devolution of Democracy” (Khan, 2004). To ensure the military’s permanent role in decision-making and governance, Musharraf passed the NSC Act in 2004. This NSC made the military a prime domestic player in the control game involving different elite groups (Talbot, 2003). Although Musharraf emphasized that the NSC was to strengthen democracy and prevent politicians from exploiting the powers vested with them, it was actually to safeguard the interests of the military (Rizvi, 2003). The fall of his regime was the result of protests by emerging new groups in the society which had flourished due to strong support by those in control of the media.

The 2008-2013 democratic government completed its tenure, the military remained influential. Moreover, influential actors including new emerging groups like the judiciary and the media kept undermining the credibility of the government and eroded key aspects of the consolidation of democracy. For the first time, a democratic transition occurred in Pakistan, but the military had certain issues on which it had zero tolerance. This included any civilian government interference in foreign policy; appointments of the Chief of Army Staff, military budget allocation, control on intelligence and control of the media and judiciary.
CHAPTER 5: EFFECT OF REGIME CHANGES ON CORPORATE ELITES

The previous chapter discussed the collusions and contestations among power elites, particularly before and after a regime change. This chapter focuses on the emergence and development of the seventh elite group, the corporate elite. The objective here is to trace the strategies adopted by the corporate elite to establish and maintain their existence in a complex power structure under different regimes.

5.1 Corporate Elite as New Power Elite

During the early years after its independence, Pakistan faced four crises that impaired its development: the war with India over Kashmir, communal rioting, urban destruction and a massive influx of refugees into West Pakistan (Wilcox, 1968). While these events were taking place, the corporate sector was in the process of reviving itself, following the migration to India of 80 percent of Karachi’s business giants who were Hindus. Imran and Malik (2009) note that in Lahore, out of 215 businesses, 167 were owned by non-Muslims and in Karachi 80 percent of land and all foreign trade were controlled by non-Muslims. Urban trade and commerce were managed by Hindus who migrated to India creating a serious gap in the areas of banking, insurance, education, trade and industry (Sharif, 1966). Meanwhile, a majority of those who had migrated to Pakistan were small Muslim traders with little or no business experience.

In 1947, out of a total 14,569 industrial establishments that existed in the subcontinent, only 1,406 units were in Pakistan (including the region which is now Bangladesh). Most of these industrial units were of little importance such as flour and rice mills and cotton ginning factories. There was also the serious problem of limited financial resources without which it was impossible to proceed with any kind of industrial development plan.
To counter these problems, the government emphasized establishing export-oriented industrial enterprises. The two major hurdles in establishment of these enterprises were the lack of business-oriented human capital and the poor industrial infrastructure.

Bureaucrats actively moved to resolve these problems. First, they tried to train and support businessmen with non-business backgrounds by establishing the Pakistan Industrial Development Corporation (PIDC) and Pakistan Industrial Credit and Investment Corporation (PICIC). Shafqat (1989) and White (1974) argue that the establishment of PIDC and PICIC was a core factor that led to the creation of financial/industrial groups that came to be known as the “22 families” in the 1970s. According to White (1974), the top 43 groups listed on the Karachi Stock Exchange (KSE) received 11 of 43 businesses divested by the PIDC in East Pakistan and eight of 17 firms in West Pakistan. The big companies owned by these 22 families included Karnaphuli Paper Mills and Burewala Textile Mills (Dawood family), Jauharabad Sugar Mills (now Kohinoor Sugar Mills) (Saigol family), Karachi Gas Company (Fancy family), Charsada Sugar Mills (Hoti family), Adamjee Chemical Works, Adamjee Industries, Adamjee High Grade Paper and Board Mills, Nowshera and at least six jute mills which were built by WPIDC (West Pakistan Industrial Development Corporation).

Although East Pakistan contributed 70 percent of the total jute production of a united India, it lacked a well-developed jute-processing enterprise. In West Pakistan, the major crop was cotton but only three processing firms existed in the region (Ali & Malik, 2009). The geographical area that came under Pakistan was only associated with the production of raw agricultural products. The processing firms that were established were in areas that remained with India after partition. Table 5.1 outlines the division of industrial units in 1942 in the areas which were separated as India and Pakistan.
TABLE 5.1: Division of Industrial Units in India and Pakistan in 1942

<table>
<thead>
<tr>
<th>Industrial units as per products</th>
<th>India</th>
<th>Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton</td>
<td>857</td>
<td>15</td>
</tr>
<tr>
<td>Jute</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Sugar</td>
<td>176</td>
<td>15</td>
</tr>
<tr>
<td>Paper mill</td>
<td>19</td>
<td>0</td>
</tr>
<tr>
<td>Iron and steel works</td>
<td>36</td>
<td>0</td>
</tr>
<tr>
<td>Glasswork</td>
<td>112</td>
<td>5</td>
</tr>
<tr>
<td>Cement and lime works and potteries</td>
<td>57</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: *Eastern Economist* (1942)

These figures do not include small factories and workshops making light consumption goods, such as hosiery and knitwear, electrical fittings, rugs, shoes and leather goods, handicrafts in wool, silk, embroidery, in cities like Lahore. In these businesses, Pakistan was not badly under-represented. The single industry of any note was the production of sports goods in Sialkot in West Punjab (Spate, 1948). There was little prospect for industrialization except in agricultural-based industries such as cotton ginning and milling, flour, food processing and jute mills in Eastern Pakistan, though even here these enterprises were encountering serious difficulties. Considering the limited available options for creating an industrial sector, the business groups of that time focused on agricultural-related industries such as the establishment of Dawood Cotton Mills in 1951.

There were a few major Muslim-owned enterprises in the region. One of them was the Adamjee family, which had played a major role in the Pakistan movement, though largely in the form of behind-the-scenes financial support. Nevertheless, the absence of a business-oriented class provided immigrant Muslims an opportunity to invest in textile industries previously controlled by Hindus. In West Pakistan, the initial business movers after partition settled in Karachi as it was a port city and the hub of business activities. They chose not to settle in Punjab as the government selected this region to settle homeless migrants from India.
In East Pakistan, migrant re-settlement was not an issue and the corporate elite of that area were Hindu Marwaris, Europeans and a few Bengali Muslims. Muslim migrants with business backgrounds settled in Karachi in spaces once occupied by a Hindu business class. They were mostly Memons from Gujarat (India) who belonged to the Sunni Muslim sect; they were extremely hard-working with a long history of involvement in business. Others included the Dawoodi Bohras from Bombay, the Khoja Ismailis from Bombay and East Africa and the Khoja Ishnashris, all of whom belonged to the Shia sect. The religious sects they belonged to continues to be a factor when it comes to decision-making in business ventures. A region which developed as a business centre after Karachi was Lyallpur, near Lahore (Punjab), where the Chinioties spearheaded business activities. Chiniot is a small town near Lyallpur (now renamed Faisalabad). The Chinioties started a textile industry as the major cash crop in Punjab was cotton.

5.2 Pakistan’s Business History

To understand the business history of Pakistan, it is necessary to determine the origins of these business groups from united India that emerged under British rule. Historians conventionally argue that the Indian capitalist class was more prone to collaborate with foreign capital and that they apparently faced “no major conflict” in adapting to its presence (Ali, 2004; Gardezi & Rashid, 1983; Bose & Jalal, 2004). Other historians challenge this as a neo-Marxist position, arguing that though Indian capitalists were weak and dependent, they struggled with imperialism and made use of crises in the world economy, such as the world wars and the Great Depression, to emerge as an independent force (Raman, 2014). The literature on business activities in India focuses on enterprises in Bombay and Calcutta. Among the business groups of prominence in Pakistan were those that had migrated from Bombay and Calcutta.
In Pakistan, as in India, the industrialists were usually members of old trading families. These families continue to dominate Pakistan’s corporate sector. However, the method used to develop their enterprises was a legacy of the British, the “agency firm” (Lamb, 1955). Families like Adamjee, Valika and Habib were involved in trading, insurance and banking from the colonial period.

Industrial capitalism was an unintended by-product of British economic and political policy. British presence in India was to capitalize on its raw materials. These materials were used for British products manufactured for export. To facilitate global trade, British needed ports, especially in Calcutta and Bombay. Calcutta was used for jute-related trade and Bombay for cotton-related products. The production areas for both these products later became Pakistan, but processing units were launched in Calcutta and Bombay as these cities had ports.

The industrial groups in India belonged to different religions. Most of the groups were Hindus and Jains and the others were Christians, Muslims and Zoroastrians. Among these business groups, only two ethnic groups were involved in the cotton industry in the 1850s; they provided cotton to Bombay’s textile manufacturers. Those were the Parsis, who had migrated from Persia almost 1200 years ago and were a relatively small group, and the Gujratis, a subgroup of the larger Hindu community. These two groups were selected to control the cotton industry due to their business knowledge and access to the ports, being

52 The managing agency conducted extensive trading operations and ran industrial plants, about which no quantitative information is available. Some of these ventures were incorporated as “public” companies with listed shares on stock exchanges and were required to publish annual statements. A long-term contract between the managing agency and each related company allowed the agency to determine overall company policy and to intervene in day-to-day decisions.
residents of nearby areas. The Parsis had the advantage of being closer to British businesses because of their command of the English language.

In 1854, C.N. Davar, a Parsi banker and trader with many British contacts, built the first cotton textile mill. It soon matched many other factories in Bombay and Gujarat. Later, the Parsi industrialist J.N. Tata and his family entered into heavy industries. Since then, Hindu and Parsi business interests expanded, gradually transitioning from trade to industry (Lamb, 1955). This is similar to the developments in Pakistan with the only difference being that the traditional industrial community were Hindus who upon migration to India were replaced by Muslim traders. Since they had no strong industrial and manufacturing experience, those groups with some measure of business experience like the Adamjee and Habib Groups captured much of the market in the emerging economy.

As discussed in Chapter Four, elite groups with significant participation in the Pakistan movement included landlords, educated secular urbanities and the commercial minorities. These commercial minorities became business groups by expanding their businesses in the first decade. Papanek (1962) explains that before 1947, 70 percent of industry owners belonged to the trade sector (buying and selling finished products and gaining a commission) but later became entrepreneurs. He also mentioned that 27 percent of the industrialists were Helai Memons who comprised only 0.3 percent of the total population.

Prior to partition, most of the business groups that participated in the growth of Pakistan’s industry had their headquarters in Calcutta or Bombay. After partition, only three cities became the hub of all industrial activities: Karachi (a port city), Lyallpur (the city with a large number of manufacturing firms) and Lahore (the hub of Punjab). Inevitably, business families settled in these three cities. 40 percent of all industrial workers soon were to be found in these three cities. Table 5.2 details the background of the top business
groups which either migrated to Pakistan in 1947 or were situated there well before partition.

**TABLE 5.2: Background of Industrial Families**

<table>
<thead>
<tr>
<th>Business group</th>
<th>Community</th>
<th>Family Origin/Area</th>
<th>Settled</th>
<th>HQ location pre 1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adamjee</td>
<td>Memon</td>
<td>Kathiawar/ Jetpur</td>
<td>Karachi</td>
<td>Calcutta</td>
</tr>
<tr>
<td>Dawood</td>
<td>Memon</td>
<td>Kathiawar/Bantwa</td>
<td>Karachi</td>
<td>Bombay</td>
</tr>
<tr>
<td>Saigol</td>
<td>Punjabi Shaikh</td>
<td>West Punjab/ Chakwal</td>
<td>Lahore</td>
<td>Calcutta</td>
</tr>
<tr>
<td>Valika</td>
<td>Dawoodi/Bohra</td>
<td>Bombay</td>
<td>Karachi</td>
<td>Bombay</td>
</tr>
<tr>
<td>Colony</td>
<td>Punjabi/Shaikh/ Chinioti</td>
<td>West Punjab/ Chiniot</td>
<td>Lahore</td>
<td>Lahore</td>
</tr>
<tr>
<td>Fancy</td>
<td>Khoja Ismaili</td>
<td>Kathiawar</td>
<td>Karachi</td>
<td>East Africa</td>
</tr>
<tr>
<td>Bawany</td>
<td>Memon</td>
<td>Kathiawar/ Jetpur</td>
<td>Karachi</td>
<td>Rangoon</td>
</tr>
<tr>
<td>Crescent</td>
<td>Punjabi Shaikh</td>
<td>West Punjab/ Chiniot</td>
<td>Lyallpur</td>
<td>Delhi</td>
</tr>
<tr>
<td>Beco</td>
<td>Punjabi</td>
<td>East Punjab</td>
<td>Lahore</td>
<td>Batala</td>
</tr>
<tr>
<td>Wazir Ali</td>
<td>(None, Syed)</td>
<td>West Punjab/ Lahore</td>
<td>Lahore</td>
<td>Lahore</td>
</tr>
<tr>
<td>Amin</td>
<td>Punjabi Shaikh</td>
<td>West Punjab</td>
<td>Karachi</td>
<td>Calcutta</td>
</tr>
<tr>
<td>Nishat</td>
<td>Punjabi Chinioti</td>
<td>West Punjab/ Chiniot</td>
<td>Lyallpur</td>
<td>------</td>
</tr>
<tr>
<td>Hoti</td>
<td>Pathan Landlord</td>
<td>Charsadda</td>
<td>Charsadda</td>
<td>Charsadda</td>
</tr>
<tr>
<td>Fateh</td>
<td>Marwari</td>
<td>Gujurat</td>
<td>Karachi</td>
<td>------</td>
</tr>
<tr>
<td>Isphani</td>
<td>(None)</td>
<td>Iranian</td>
<td>Karachi</td>
<td>Calcutta</td>
</tr>
<tr>
<td>Karim</td>
<td>Bohras</td>
<td>Bombay</td>
<td>Karachi</td>
<td>------</td>
</tr>
<tr>
<td>Habib</td>
<td>Khoja Isnasheri</td>
<td>Bombay</td>
<td>Karachi</td>
<td>Bombay</td>
</tr>
<tr>
<td>Hyeson</td>
<td>(None)</td>
<td>Madras</td>
<td>Karachi</td>
<td>Madras</td>
</tr>
</tbody>
</table>

Source: Kochanek, 1983, pg. 93

Table 5.2 shows that of the top 18 business groups, six belonged to Punjab and eight were situated in Karachi including the Memon, Khojas and Dawood families. Out of these 18 business groups, three did not belong to any community and had no background in business or trade, pre-partition. From the other two provinces of Khyber Pakhtunkhwa and Baluchistan, there was only one business group, owned by a landlord. Table 5.2 also indicates that although Punjab had a number of business groups, these were not landlord-
turned-corporate elites; rather, they had a history of being in business in Delhi, Calcutta and Lahore.

Most of these business groups were associated with the cotton industry (West Pakistan) or jute industry (East Pakistan). When Pakistan came into being, there were only 16 textile companies out of which only 12 were in operation. It grew to 70 in 1957 as industrial development took place. By 2013, there were 596 textile mills out of which 442 were in operation. The export revenue of the textile industry contributed a large share to the GDP of Pakistan. Kochanek (1981) noted that the fastest growing families were not the Isphahanis, Haroon or Rahimtoola, but Dawood, Saigol, Jalil (Amin), Adamjee, Shaikh, Fancy, Valika, Bawany, Bashir (Crescent) and Wazir Ali. The political leaders of the Muslim League traditionally kept business and politics separate (Kochanek, 1983).

The business groups selected as case studies in next chapter represent each industrial community. The Dawood Group represents the Memon group, which had a strong business background in Bombay, while the Sehgal group is a Punjabi sheikh group from Calcutta, now settled in Lahore. To represent a group which has no community backing, but came up as a strong group, the Wazir Ali group was selected, now known as the Packages Group. A group which had community links but no business background before the partition is the Nishat Group, located in Faisalabad. These groups are diverse.

53 These were the leading business groups at the time of the creation of Pakistan. The Isphahanai Group held the proud tag of launching Orient Air Ways which later became the national air carrier, Pakistan International Airline (PIA). The Raheemtoo group was originally based in Bombay and was involved in trading since the late 19th century as well as in politics. Sir Ibrahim Rahimtoo was Mayor of Bombay and first Indian Speaker of the Indian Imperial Parliament. His son, Habib Ibrahim Rahimtoo was a close associate of Mohammed Ali Jinnah, the founder of Pakistan. Habib served Pakistan as its first High Commissioner to the United Kingdom in 1947. The Haroon Group was also closely linked with Jinnah and the Pakistan Movement. The founder of this group, Abdullah Haroon, was a British Indian politician who contributed to nurturing Muslims in economic, educational, social and political fields in South Asia. Later, his son Yousaf Haroon, founder of the Dawn Group, played an active role with Jinnah in the Pakistan Movement.

54 Famous as Packages Group, after its leading packaging firm, Packages Limited.
in nature, representing all communities, based in all three industrial cities and have had different levels of historical support from the state.

5.3 Development of Corporate Elite under Different Regimes

This section explains in detail the effect of different policies adopted by democratic and authoritarian governments in Pakistan from 1947 till 2012. How the corporate elite changed their strategies and adapted to policy decisions will be highlighted in the discussion. This needs to be understood in light of the situation of resource allocation to the corporate sector under each regime.

5.3.1 Emergence of Corporate elite in First Bureaucratic Regime, 1947-58

The Pakistani government followed a liberal trade policy to strengthen newly-established business groups. Businesses incentives were offered to secure investments. This trade policy of the first bureaucratic regime focused on establishing facilities for the processing of domestically produced raw materials. The reason for focusing on these industries was because Pakistan was able to produce agriculture products some 50 to 70 percent cheaper than global prices. By the 1950s, Pakistan’s agriculture industries were one of the largest and cheapest. The profits earned from this industry allowed for the import of advanced manufacturing units to further industrialization. Pakistan sought to transition from exporting cheap raw materials and importing finished goods made by the same raw material at a high price to manufacturing final goods. This push for industrialization came at the expense of the landlords and the agriculture sector. Papanek (1962) noted that development of the industrial sector was due to four major reasons:

1. the government’s ability to maintain law and order and prevent massive capital flight by enforcing import controls and providing overhead facilities;
2. a small proportion of the population was accustomed to responding to market incentives;
3. institutions and value systems were supportive of entrepreneurial activities; and
4. a political system which did not get unduly worried by high prices, high profits and the presence of foreign enterprises.

Table 5.3 presents the expansion of industrial assets from 1947 to 1959. The value of investments in the corporate sector increased tenfold, from Rs.580 million to Rs.5020 million. This expansion indicated the gap in the economy waiting to be tapped by businesses. Papanek (1962) developed an index to explain the growth of industrial assets. This index indicated an almost six-fold expansion of industrial assets within ten years, from 1949 to 1959 (see Table 5.3). This meant that investments were increasing in both the manufacturing sector and industrial assets.

**TABLE 5.3: Growth of Industrial Assets, 1947–1959**

<table>
<thead>
<tr>
<th>Year</th>
<th>Million (Rs.)</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>580</td>
<td>17</td>
</tr>
<tr>
<td>1949</td>
<td>820</td>
<td>23</td>
</tr>
<tr>
<td>1951</td>
<td>1280</td>
<td>36</td>
</tr>
<tr>
<td>1953</td>
<td>2030</td>
<td>57</td>
</tr>
<tr>
<td>1955</td>
<td>3510</td>
<td>100</td>
</tr>
<tr>
<td>1957</td>
<td>4360</td>
<td>124</td>
</tr>
<tr>
<td>1959</td>
<td>5020</td>
<td>143</td>
</tr>
</tbody>
</table>

Source: Papanek, 1962

From 1953 to 1960, manufacturing had grown more rapidly in Pakistan than in any other country according to the United Nations’ statistics, except for Japan. Papanek (1964) conducted a survey in 1960-61 involving a lengthy questionnaire completed by 255 industrialists belonging to different geographical areas. They were, according to the Census of Manufacturing Industry (CMI), 8 percent of the total 3170 firms at that time.
(Papanek, 1964). Papanek’s study provided primary data derived from the survey and census report and offered evidence of a phenomenal increase in the industrialization of Pakistan in the first decade, from 1947 to 1957. However, that industrialization was concentrated in West Pakistan. This is evident in Table 5.4, derived from a study by Guisinger (1976), about the industrialization pattern that followed the early years.

**TABLE 5.4: Pattern of Industrialization in Pakistan, 1950-70**

<table>
<thead>
<tr>
<th>Factors</th>
<th>All Pakistan</th>
<th>West Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita GNP</td>
<td>65</td>
<td>75</td>
</tr>
<tr>
<td>Population (million)</td>
<td>80</td>
<td>100</td>
</tr>
<tr>
<td>Share of Industry (expected)</td>
<td>.12</td>
<td>.13</td>
</tr>
<tr>
<td>Share of Industry (actual)</td>
<td>.07</td>
<td>.12</td>
</tr>
</tbody>
</table>

Source: Guisinger, 1976

Table 5.4 outlines industrial expansion in Pakistan in the first twenty years. It shows that an under-developed country lacking industrial firms as well as skilled human resources in labour and at managerial levels could find methods to progress. Pakistan did make the world wonder about its industrial development. Growth was primarily because a group of private entrepreneurs were ready to take the risk and initiative to invest and they showed an ability to efficiently organize the required capital and skilled manpower. These early entrepreneurs competed little with each other because of the ample market opportunities that were available. Competition arises when companies face saturation, which was not the case with Pakistan in its early days. Moreover, local and international markets were open and these entrepreneurs did not face the problem of excess supply. This could only happen as the market gave them space to flourish and take advantage of growing international and national demand.
According to the approach developed by Lewis (1966), Chinroy, Soligo (1965) and others, the growth pattern of industrialization can be attributed to import-substitution, export expansion and domestic demand. The Korean War brought wealth to Pakistan. Businesses sold raw materials to the anti-communist nations and then invested their profits in the manufacturing of consumer goods.

A number of reasons account for Pakistan’s rapid economic growth soon after independence: the favourable impact of growth in the world economy, the liberalization policy of the 1950s, the economic role of the state and the mobilization of savings (Ahmad, 1980; Amjad, 1982; Baqai, 1979). These factors played a role but cannot be considered as major reasons for the massive expansion of the industrial sector. The core reason was the role of the state involving its capacity to increase investments in manufacturing firms by allocating resources for projects which were essential for development (McCartney, 2011). Industrialization was further generated with the re-investment of profits, including those accruing from trade. Industries were initially established by funds derived from approximately 40 percent of trade profits. Only 10 percent of finances came from commercial banks. As Papanek (1962) noted, dominant family-owned businesses allowed an enterprise to go public after they had skimmed off the high profits of the earlier years, providing them with funds for new investments in high profit areas. The most important source of financing was reinforced earnings, which provided almost half of the industrial investments between 1958 and 1959.

The corporate elites who could exploit this gap were old business groups as well as the small traders who were emerging as businessmen. The main problem for industrial development was the huge foreign exchange required to establish such enterprises in Pakistan. This was generated from the export of jute, produced in East Pakistan. However, the collusions between corporate and bureaucratic elites of West Pakistan hindered this
foreign exchange from being invested for further industrial expansion in East Pakistan. This ignited tensions between East and West Pakistan from the early 1950s, a situation created by elites.

In the mid-1950s, Prime Minister Suharwardy tried to reduce this tension by sanctioning more import licenses to East Pakistan’s corporate groups and by allotting aid for the modernization of ill-equipped industries. However, West Pakistan’s business groups did not accept it and sent a protest about this to President Iskandar Mirza. The corporate elite of West Pakistan took advantage of the rifts between President Mirza and Prime Minister Suharwardy by seeking an alliance with the former (Maniruzzaman, 1966). This alliance became one reason for the overthrow of Suharwardy. This resulted in the short-lived interim government of Chandigarh (7 October 1957 to 16 December 1957) who cancelled all import licenses and grants awarded to East Pakistan. A similar situation occurred under Prime Minister Noon’s regime (16 December 1957 to 7 October 1958), before Martial Law was imposed by General Ayub in October 1958. The early collusions and contestations among corporate and political elites played a significant role in shaping the business structure of current Pakistan.

The bureaucratic elite also played a significant role in these collusions. Bureaucrats had complete autonomy to allocate funds and award licenses to industrialists as well as brief them about future business decisions such as where to expand and what to produce. This policy of offering incentives to develop the industrial sector continued until the 1960s. This policy did not lead to equitable growth, but resulted in concentration of wealth by certain groups. As the import licenses and approvals to establish industrial enterprises were controlled by the bureaucratic elite, they issued those contracts to corporate elites with whom they had personal contacts. By the mid-1950s, corporate groups owned major
financial sectors like banks\textsuperscript{55} and insurance houses. Financial capital was thus easily available to them, compared to other emerging groups. This environment created by government and some business groups proved a major problem for new entrants in the corporate sector attempting to establish businesses.

5.3.2 Corporate Elite Expansion under Military Regime

In the 1960s, Pakistan had a mixed economy model in which the state set up industries that were later transferred to private businesses. The pursuit of profit inspired these private businessmen to invest and expand in other sectors of the economy. Economic reforms were initiated in agriculture, education, law, land, trade and taxation. The initial results were quite spectacular and the model attracted academics as well as policy-makers from other countries. One of the distinguishing features of the mixed economic model was that Pakistan had a strong bureaucracy that guided and directed the private sector. The Planning Commission of the 1960s was a powerful technocratic institution assisted by foreign economic experts. Corruption and parochial interests had not permeated the higher levels of decision-making to the degree that it subverted economic progress and institution building.

Though this industrial development increased GDP, it could not be sustained and growth was not distributed evenly. As discussed, during the military regime led by General Ayub arose the issue of wealth concentration in the hands of a few families. Society was clearly divided between elites and the lower and middle classes. Since the middle class was emerging in this era, and as Ayub was a follower of modernization, this allowed

\textsuperscript{55} For example, the Muslim Commercial Bank was owned by the Adamjee group, United Bank by Kohinoor Group and Allied Bank by the Khawaja group.
intellectuals and the middle class to articulate their thoughts in public forums. These forums became the reason for Ayub’s fall. Wilcox (1970), however, was of the view that the reason for Ayub’s fall was primarily due to disputes that arose among military elites. Inequitable forms of development led to political decisions based on the vested interests of those holding power. In this situation, even risk-taking entrepreneurs stepped back from investing or moved to other countries, especially after the government’s nationalisation policy began.

On a related point, since Ayub’s regime, the military had developed an independent corporate empire. Siddiqa (2007) argues that to ensure control of power, military elites always desired to expand their economic interest. One example of state patronage was the accusation that Ayub had awarded numerous rents to his son, Gouhar Ayub, and his father-in-law, to help set up Gandhara Industries.

Khandker (1973) measured Pakistan’s income distribution in the first twenty years and found more unequal distribution of income in urban areas compared to rural areas. He also argued that there was increased inequality of wealth in the form of corporate industrial assets. He found that a mere 47 stockholders owned 100 percent of corporate assets. These 47 stockholders consisted of 14 groups and 33 individuals (see Table 5.5).

<table>
<thead>
<tr>
<th>TABLE 5.5: Distribution of Number of Principle Stockholders and Total Assets by Size, 1970</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of Principle stocks</strong></td>
</tr>
<tr>
<td>Size of Assets</td>
</tr>
<tr>
<td>Less than 25</td>
</tr>
<tr>
<td>25-50</td>
</tr>
<tr>
<td>50-100</td>
</tr>
</tbody>
</table>
Thirty four stockholders (with less than 100 million rupees) owned 33 percent of assets, 10 stockholders (with 100 to 300 million rupees) owned 37 percent and three stakeholders (with above 300 million rupees) owned 30 percent. This concentration of wealth allowed these business groups to indulge in illegal activities to expand their businesses. Papanek (1962) contends that investors offered bribes and were even willing to pay a legal surcharge of over 100 percent to import machinery.

Concentration of wealth among the big 22 families proved that power games had been played to enhance the personal interests of elites. In spite of high growth rates, people were unhappy with the military government and the middle class, specifically university youths who started voicing the need for equal rights and opportunities for everyone. Many reasons can be attributed for the fall of Ayub’s government. One of the reasons was the decision to withdraw from the 1965 war, after the Tashkand agreement. Although Ayub blamed Zulfiqar Ali Bhutto (then Pakistan’s Foreign Minister) for this, his accusation later fuelled Bhutto’s success in the elections. Bhutto’s main issue in the 1970 elections

56 The Tashkent Declaration of 10 January 1966 was a peace agreement between India and Pakistan after the Indo-Pakistani War of 1965. Peace was achieved on 23 September, following the intervention of the super-powers who pushed these two nations to a cease fire.

57 These differences over the Tashkent Declaration eventually led to the removal of Bhutto from Ayub’s government. Bhutto launched his own party, the Pakistan People’s Party (PPP). Although Ayub was able to quell public criticism, there is no doubt that the Tashkent Declaration greatly damaged his image, one of many factors that led to his downfall.
was the plight of youths and the working class whose votes made him the next Prime Minister. Bhutto’s major support was from West Pakistan. In East Pakistan, support was primarily for Mujeeb Ur Rehman. Given the conflicts between the military and Mujeeb, the latter helped Bhutto to become the Prime Minister. The reason the military was in conflict with Mujeeb was his continuous pressure on Ayub regarding the latter’s six point agenda which did not entail giving him regional autonomy.

5.3.3 Bhutto’s Nationalization Policy Impact on Corporate Elite

The corporate sector flourished greatly in the 1960s. This period was labelled “The Golden Decade” in Pakistan’s history. The reasons adduced for such extraordinary economic development and its effects have already been discussed in the review of the first military coup in Pakistan. A significant downside to this development was the unequal distribution of wealth which was a major point in the election manifesto of Zulfiqar Ali Bhutto, a democratic leader, whose first task after coming to power was the nationalisation of industrial firms controlled by big business groups.

---

58 Bhutto created a coalition government with Mujeeb who agreed Bhutto would assume the Presidency while he would serve as Prime Minister. The military government and General Yahya Khan were kept unaware of these developments. Yahya ordered a military action in East Pakistan. The Military Police arrested Bhutto and put him under house arrest. Mujeeb was charged in a military court.

59 Yahya spoke to Mujeeb and Bhutto separately. Mujeeb did not agree on any point made by Yahya, but Bhutto’s stance was the need for dialogue between the concerned parties prior to any assembly session. For Bhutto, there were three crucial actors in this dialogue: the military, PPP and the Awami League. Unless there was a constitutional settlement between the three parties, the assembly session could not be convened. This hard stand by Bhutto suited the military and vested interests in West Pakistan.

60 Nationalisation is adopted when a government believes (or observes) that there has been a market failure in allocating resources to the society. The state then steps in and takes appropriate action (Altman, 2006). This action involves revoking the property rights of individuals or taking over control of property to ensure a fair allocation of resources among all citizens.
Accounts have it that the business groups expanded massively from 1947 until 1974 because they had established their own commercial banks (Khan, 2008). Since private sector business groups owned commercial banks, they had easy access to loans to finance their projects. This argument become the major premise for unequal growth in the economy. In 1974, in response to public anger to this situation, the government nationalised the banks, as well as insurance companies, educational institutions, utilities and other industries (Rammal, 2008). After this nationalisation process, a significant portion of manufacturing activities came under the ownership and control of the public sector (Rammal & Parker, 2013).

Under Bhutto, in six years, 31 key industrial units, 13 banks, over a dozen insurance companies, 10 shipping companies and two petroleum companies were nationalised. Of these enterprises, at least 22 industrial firms, nine banks, nine insurance companies, three shipping concerns and two petroleum corporations belonged to the “22 influential families”. To justify this nationalization, Bhutto adopted the slogan of his manifesto: “equality for everyone”. This equality was to be attained by nationalizing enterprises owned by the big business groups. He implemented this policy in three waves. The first was in 1972, when 20 manufacturing industrial firms were nationalized and a small amount of land was taken by 2,231 landlords. During the second wave in 1973, moves were made on cotton and rice exporters and cooking oil-producing companies. Mubashir Hassan\(^{61}\), the Finance Minister, was assigned the task of nationalizing the banks\(^{62}\). These banks were major fund providers to big business groups that had endeavoured to

\(^{61}\) Mubashar Hasan was a founding member of the Pakistan People’s Party, in 1967. He was elected a member of the national assembly in 1970 and served as Finance minister from 1971 to 1974.

\(^{62}\) These banks were the Habib Bank Limited, United Bank Limited, Muslim Commercial Bank, Commerce Bank, Australasia Bank, Premier Bank, Pakistan Bank and Sarhad Bank.
concentrate resources during Ayub’s regime. When Bhutto embarked on his third wave of nationalisation, he focused on shipping companies and the petroleum industry.

The justification for the nationalization of the financial sector was because the private banks did not pay adequate attention to their social responsibilities. Subsequently, they failed to contribute their required share to the process of broad-based growth which would ensure a wider and more equitable dispersal of the benefits of economic development (Sajid, 1996). This is an indication that the private commercial banks previously followed some inequitable loan dispersal activities which led to unequal distribution of economic resources among members of society. The subsequent governments followed the same path developed by those private financial institutions. In total, eight private banks were nationalized and nine shipping companies were merged to form the Pakistan Shipping Corporation in 1976. This nationalization was designed to eliminate hoarding, black-marketing and price manipulation. The result of this nationalization exercise was a long and furious political movement against government policies which ended Bhutto’s government as well as this policy.

Large-scale industrial investments decreased drastically during Bhutto’s regime primarily due to decreases in private investment. As shown in Table 5.6, total private investment was 1,166 million Pakistani Rupees in 1971; in 1977, it amounted to only 438 million Pakistani Rupees, a 62 percent decrease. The government tried to increase public sector investment and injected a huge amount of 1,563 million Rupees in 1977 which was almost 20 times more than the level of public sector investment in 1971. This changed the total number of public sector enterprises by the mid-1970s. Pakistan had 350 public enterprises at the federal and provincial levels, operating in eight sectors, i.e. finance & insurance, manufacturing, transport & communication, electricity, oil & gas, trade & commerce, mining & quarrying and agriculture & construction. As a result of it, the total industrial
investment which seemed to decrease in 1973/74 was boosted by 1977 in the shape of the greater contribution of government investment. However, the loss of confidence of the private sector can be considered a key for the downfall of Bhutto’s government. Although the purpose of nationalization was not economic but political, the policy shocked corporate elites. However, the nationalized industries comprised only 18 percent of total large-scale manufacturing and their contribution to exports was 8.3 percent (Shafqat, 1997).

**TABLE 5.6: Industrial Investment, 1971-77 (Millions Pk Rs.)**

<table>
<thead>
<tr>
<th>Years</th>
<th>Private sector</th>
<th>Public Sector</th>
<th>Total Industrial Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Large Scale</td>
<td>Small Scale</td>
<td>Total</td>
</tr>
<tr>
<td>1971</td>
<td>1166</td>
<td>192</td>
<td>1368</td>
</tr>
<tr>
<td>1972</td>
<td>876</td>
<td>189</td>
<td>1065</td>
</tr>
<tr>
<td>1973</td>
<td>468</td>
<td>157</td>
<td>625</td>
</tr>
<tr>
<td>1974</td>
<td>335</td>
<td>157</td>
<td>492</td>
</tr>
<tr>
<td>1975</td>
<td>414</td>
<td>187</td>
<td>601</td>
</tr>
<tr>
<td>1976</td>
<td>503</td>
<td>196</td>
<td>701</td>
</tr>
<tr>
<td>1977</td>
<td>438</td>
<td>213</td>
<td>650</td>
</tr>
</tbody>
</table>

Source: A. Hussain (1979, pg. 108)

As corporate elites were furious with his nationalisation policy, to win their trust, Bhutto assured them that “private enterprise had a role to play in the progress of Pakistan”⁶³. By affirming his belief in the concept of mixed economy, in which both the private and public sectors worked together, after his active nationalization program created a serious disputes within Bhutto’s Pakistan People’s Party (PPP). The PPP’s left wing favored a command economy while Bhutto was shifting more to the party’ moderate wing by 1974.

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This shift led to the removal of Mubashar Hasan as Finance Minister in 1974, apparently as a concession to Karachi’s industrial elite. Left wing figures had disappeared from the administration by 1974. The last was Khurshid Hasan Meer, who openly claimed that the government was controlled by landlords (Gustafson, 1976). These Incidents indicated that Bhutto did not have a free hand in the presence of powerful elite groups (corporate and landlord) to institute economic policies in line with his election manifesto. Bhutto reportedly took little interest in economic policy, focusing more on foreign affairs (Gustafson, 1976).

One major outcome of nationalization was not that the top industrialists had lost ownership of industrial firms; they had lost the urge to invest in Pakistan. The CEO of Colony Group, Farooq A. Sheikh, in an interview with Rahman (1998), concluded regretfully that “it was a bad judgment on the part of the group to have remained exclusively confined to Pakistan; it was more like putting all the eggs in one basket”. G.M. Adamjee contended that the first two decades of Pakistan were like the gold rush in the United States; however, that golden era started declining far before Bhutto’s nationalization, and that the business class had already suffered a major setback due to the separation of the eastern wing. The Adamjee Group had lost the “biggest jute mill in Asia” (Rahman, 1998).

As Bhutto’s government took over industries and financial institutions, control of these firms fell into the hands of members of the ruling PPP. It was reported that the party members secured top positions in those nationalized projects (see J. Rashid, 1978). The socioeconomic reforms of 1960 caused huge unrest and discontent among the masses in matters of equality (Burki, 1988). Although the success of Bhutto was that he was the first torch-bearer of democracy in the country, by 1974 the departure of the reformist
leftist from the PPP showed that Pakistan remained under the control of 

Like previous military and bureaucratic regimes, the democratic government also 
squashed any adverse statement about public policies. Bhutto’s nationalization broke 
some of the 22 families financially, resulting in their disposal of industries that escaped 
nationalization; or, they had a self-imposed moratorium on new projects (Rehman, 1998). 
Bhutto mistrusted both large industrial families and military. While he proved this by 
nationalising firms owned by these families, he ensured that the military would be 
confined to the barracks by taking control of the appointment of the Commander-in-Chief 
of the Armed Forces. He removed senior military officers from positions of power and 
selected General Zia ul-Haq as the Chief of Army Staff. Bhutto selected Zia due to his 
reputation for professionalism and lack of interest in politics (Burki, 1988).

It is a myth that the dominance of civil and military bureaucrats had come to an end during 
Bhutto’s regime (1971-77). This is not possible given the significant role played by public 
enterprises in the economy. Bureaucrats who controlled these enterprises had either a 
civil service or military background. In fact, the role and importance of public enterprises 
expanded due to the nationalization of the financial and manufacturing sectors.

5.3.4 Impact of Reversal of Nationalization Policy on Corporate Elite

In July 1977, the post-Bhutto government announced the failure of the nationalization 
policy by denationalizing 2,000 agro-based industries. In 1978, the government approved 
an order, Transfer of Managed Establishment, which implicitly provided pre-emptive 
rights to the previous owners of nationalized industries to re-acquire their companies. 
However, if the previous owner did not show interest, the government was free to transfer
the control to any other party (Bokhari, 1998). On 17 September, Bhutto was arrested under Martial Law orders. Zia, after assuming power, assured the business families that it was safe to invest in Pakistan and denationalized the ginning mills. However, denationalization and privatization were not pursued vigorously until mid-1980s.

After the death of General Zia in 1988, a plan to privatize public enterprises (the Rothchild report) was prepared. In 1989 and 1991, respectively, the first sale of a public enterprise (Muslim Commercial Bank) to a private group (Nishat) occurred. The owner of the Nishat Group, Mian Mansha, was known for his close ties with the then Prime Minister, Nawaz Sharif. When Sharif was Chief Minister of Punjab during Zia’s military regime, Nowshara Engineering, Halal Vegetables and Ittefaq Foundry were privatized. These three firms were the first that were returned to the previous owners (Nawaz Sharif family), ostensibly as a sign of the denationalization policy and to encourage industrialists to re-invest in the corporate sector.

Although, Zia strived to win over the confidence of private industrialists, including by awarding them several concessions following the legalization of Black Money64, his efforts proved futile. It was only after 1985 that industrialists in the textiles sector started re-investing since cotton was the major staple crop of Pakistan and constituted two-thirds of national exports (Ali, 2001).

64 Since it was by then impossible to identify the origins of many of these nationalized businesses, it is easier to assume that all capital was legal and could be privatized.
5.3.5 Favouring Corporate Elites through Privatization

After Zia’s death in an aircraft crash, Ghulam Ishaq Khan, the chairman of the senate, became the acting president and announced that elections would be held. Benazir Bhutto became the Prime Minister, winning 38.43 percent of the seats in the elections. She entered government with clear economic objectives and a vision for the country. Principally, PPP abandoned its socialist goals and resolved to pursue privatization (Shafqat, 1996). This policy was also adopted by her key opponent, Nawaz Sharif. Bhutto’s government espoused the high goals of privatization as the panacea for the ailing and bloated public sector.

However, Bhutto was soon entrapped in the politics of patronage and providing jobs to PPP supporters. This instigated an unrest in bureaucratic lobbies and created in them a bias towards political elites, particularly as rent-seeking activities increased. While rent-seeking further strengthened the sceptical vision of the industrialists towards Bhutto, they were also upset that her government was unsupportive of their business ventures.

Nonetheless, with the introduction of neoliberal policies, Pakistan recorded enormous foreign investments and projects in 1989. In August 1990, due to Bhutto’s resistance to the idea of military hegemony, her government was dissolved and an interim government entered office. Elections were again held and this time Nawaz Sharif became the Prime Minister. However, like the previous government, Sharif remained in office for less than three years, from 1990 to 1993.

Although the Black Money law was instituted in a way that gave hope to the industrialists that they could regain ownership of their nationalized companies, political connections and rent-seeking activities were at its peak during this period. The biggest example in history was the auction of Muslim Commercial Bank (MCB). Although the Adamjee Group, the previous owner, bid for it, Mian Mansha of the Nishat Group, who had close
ties with then Prime Minster, Sharif, acquired MCB. Nishat’s bid was third in the pecking order. The presumed reason for this decision was that the Adamjee Group could not come up with the managerial requirements required of them (Rehman, 1998).

Sharif as Prime Minister actively pursued neoliberal programs such as privatization, deregulation and economic reforms aimed at reducing structural impediments for sound economic development. Top priority was given to denationalizing 115 public industrial enterprises, abolishing the government’s monopoly in the financial sector and selling public utilities to private investors. Table 5.7 lists the names of the banks and their buyers during this privatization process.

Sharif had earmarked 115 enterprises for privatization and by the time his government was dismissed on April 18, 1993, he had privatized two banks, 68 industrial firms and 10 percent of shares of the Sui Northern Gas Pipeline. After him, during Benazir Bhutto’s second tenure from 1993 to 1996, she privatised 31 enterprises. The sum total of money received after the privatisation exercise from 1988 to 1996 was 34,531 billion rupees. 1,600 billion rupees was invested in the Social Action Program (SAP), while 600 billion rupees was used for debt payments.

http://www.photius.com/countries/Pakistan/economy/Pakistan_economy_policy_developments_~10397.html
TABLE 5.7: Names of Buyers & Banks Privatised, 1991 -2003

<table>
<thead>
<tr>
<th>No</th>
<th>Unit name</th>
<th>Net Price/Million in US$</th>
<th>Date Transfer</th>
<th>Buyer name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Allied Bank Limited (51%)</td>
<td>971.6</td>
<td>Feb. 91</td>
<td>EMG</td>
</tr>
<tr>
<td>2</td>
<td>Muslim Commercial Bank (75%)</td>
<td>2,420</td>
<td>April 91</td>
<td>National Group</td>
</tr>
<tr>
<td>3</td>
<td>Banker’s Equity (51%)</td>
<td>618.7</td>
<td>June 96</td>
<td>LTV Group</td>
</tr>
<tr>
<td>4</td>
<td>Habib Credit &amp; Exchange (70%)</td>
<td>1,633</td>
<td>July 97</td>
<td>Sh. Nahyan Bin Mubarak Al-Nahyan</td>
</tr>
<tr>
<td>5</td>
<td>United Bank Limited (51%)</td>
<td>12,350</td>
<td>Dec. 02</td>
<td>Consortium of Bestway and Abu Dhabi Group</td>
</tr>
<tr>
<td>6</td>
<td>Bank Alfalah (30%)</td>
<td>620</td>
<td>Dec. 02</td>
<td>Abu Dhabi Group</td>
</tr>
<tr>
<td>7</td>
<td>Habib Bank (51%)</td>
<td>22,409</td>
<td>Dec. 03</td>
<td>Aga Khan Fund for Economic Development</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>41,023.2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ghouri, 2013

These two civilian-led governments claimed that they were focusing on efficiency gains that were likely to accrue from increasing the level of competition; they were not merely interested in changing corporate ownership patterns (Sajid & Chaudhary, 1996). However, the major business groups that benefited from privatization were those that had close ties with the ruling government. Mansha, closely aligned with Nawaz Sharif, and his associates walked away with MCB and five cement plants. Schon Group procured Pak-China Fertilizer and National Fibre. Takakkal acquired Baluchistan Wheels and Naya Daur Motors while the Bibojee Group of Habib Ullah Khattak obtained back National Motors (originally Gandhara Motors). An unknown person, Sikandar Jatoi, a friend of Asif Zardari, was successful in bidding for Metropolitan Steel, Zeal Pak Cement and Shikarpur Rice. Sharif’s strong support of corporate elites he knew from the time he was Chief Minister of Punjab was evident in many of his decisions. According to Rehman (1998, p. 42): “As Chief Minister of Punjab, Nawaz Sharif presided over the liquidation/privatization of several units of Punjab Industrial and Development Board (PIDC) like Pasrur Sugar Mills, Samundri Sugar, Rahwali Sugar, Paras Textile, Harapa Textile and Ghazi Textile. How and on what prices these units were sold is still a secret but according to Company Review in the daily DAWN in May 1991, Pasrur Sugar Mills was sold to United Sugar Mills of United group for a “token price of Rs
government made considerable progress in liberalizing the economy, it failed to address the problem of a growing budget deficit which in turn led to a loss of confidence in his government on the part of foreign aid donors. The caretaker government of July to October 1993 led by Moeen Qureshi, a former World Bank vice president, asserted that the nation was near insolvency and would require a number of measures to impose fiscal discipline.

The return of democracy, from 1989 to 1999, brought three major policy shifts. These were the Deletion Policy, Deregulation Measures and Privatization (Saeed, 2005). The Deletion Policy focused on achieving self-reliance in the engineering sector and the promotion of technology transfer. The democratic administrations began the privatization of large banks and enterprises. However, since no effort was directed at putting in place pro-competition laws, privatization did not improve corporate activities. The most important development of this era was the introduction of the Small and Medium Enterprise Development Authority (SMEDA), established to help companies improve the quality of their products, adopt new technologies and management practices, and implement cost benefit analyses at the firm and market levels.

This era witnessed the emergence of new businessmen who accumulated wealth by means of corruption and rent-seeking. New textile projects were over-leveraged and many malpractices occurred while establishing them. Malpractices and rent seeking, as in the past, featured in the emergence of this latest wave of well-connected businessmen. Several even entered into politics and prospered rapidly. Among them were the Sharifs

one only”. Samundri Sugar Mills was sold to Monoos and Rahwali Sugar to a Muslim League politician Sheikh Mansoor, following single line advertisement in newspapers under the caption, “Bids invited for Rahwali Sugar Mills”. The recklessness and favoritism shown in privatization of the PIDB units by Chief Minister Nawaz Sharif was to become the hallmark of his privatization as Prime Minister”.

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of Ittefaq Group, Chaudaries of Gujrat and the children of some corrupt generals in Zia’s regime (Ali, 2004). Prominent corruption-linked privatization cases, well-discussed by Rehman (1998), involved Schon Group\(^{67}\), Sikander Jatoi\(^{68}\), Tawakkals\(^{69}\), Kot Addu Power Company\(^{70}\), OGDC, UBL\(^{71}\) and Pak Saudi Fertilizer\(^{72}\). It was the privatization of Muslim Commercial Bank to Mansha of the Nishat Group that was seen as the most notorious case. Sharif was accused of arbitrarily fixing the price of privatized state units, ignoring those suggested by independent evaluations. For example, it was revealed that a bid amounting to 759 million rupees was received for 16 Ghee Mills but the bidded amount was never fully transferred in government’s accounts and in actual these units were sold for only 636 million rupees (Rehman, 1998). State officials had entered spheres of business and industry, mostly through the guise of their relatives. Meanwhile, the military established its own business structure under the name of trusts and foundations. Fauji Foundation is the biggest conglomerate in Pakistan’s corporate world (Jalal, 1995).

Nawaz Sharif has an industrial background, though his rise cannot be considered as a

---

67 This company secured the most profitable public sector unit, National Fiber, as well as Pak China Fertilizer (Rehman, 1998, p. 46).

68 Metropolitan steel with the annual turnover of 1200 million rupees was officially sold to Jatoi for a mere 66.67 million rupees. However, Jatoi also received a “golden handshake” from the Privatization Commission 25 million rupees. This meant that he paid a mere 5 million rupees for this lucrative company (Rehman, 1998, p. 47).

69 Apart from 231 million of evaluation, Naya Dour Motors was sold for 69 million rupees though it was values at 231 million rupees.

70 Although 26 percent of Kot Addu Power Company’s shares were sold for US$215 million only US$163 million was deposited in the government’s account.

71 In September 1991, the Chairman of the Privatization Commission, Saeed Qadir, speculated in an interview with the Daily Dawn that UBL could fetch a price of Rs150 per share, but in 1996 it was sold to a dubious group for Rs15 per share.

72 This was the most profitable state enterprise under the Ministry of Production. The company was a gold mine, not just because of its profitability but because whoever owned it was in a position to out-compete three other firms, National Fertilizer Corporation (NFC), Hazara Phosphate and National Fertilizer Company Jaranwala, Lyalpur (NFCL), because they supplied raw materials to these companies.
reason for his class support. Sharif’s rise was due to his loyalty to General Zia and his policy of following the dictates of the Washington twins: the IMF and World Bank. Though Sharif’s government was a democratically elected, his victory in the 1997 elections was a result of a very low voter turnout of 35 percent of the total registered voters (Gardezi, 1998).

5.3.6 Impact of Power Reconfigurations on Corporate Elite

As a result of the assassination of Benazir Bhutto, PPP returned as the majority party in parliament and formed the government. A no confidence motion was raised against General Pervez Musharraf who had to resign in order to escape impeachment by parliament. International elites who facilitated the return of democracy had high hopes of a civilian government working with the military to counter Islamic militants. As a first step, the new government issued an executive order to bring the military intelligence agency under the control of the Ministry of Interior. The move was strongly resisted by the military elite which once again acted as a singular unit. The civilian government had no alternative except to retreat. The exposure of the civilian government as powerless forced international elites to rethink their expectations of civilian rule and their promises of financial support (Rubin & Rashid, 2008).

Terrorism and lack of foreign exchange stymied business activities, along with the 2008 global financial crises and the collapse of major US-based financial institutions. Foreign investments, which at one point was recorded at around US$8 Billion, reduced to less than US$2 billion, and in later years, below US$1 billion. The global financial crises also had a negative impact on exports and the corporate elite suffered badly.
In this climate, an influential group, the judiciary, emerged which had important implications in the economic and political scenes. The judiciary had the support of the international elite, military elite and political elite. However, these power reconfigurations caused uncertainty leading to a complete collapsed of business activities in the country.

The new government in Islamabad was facing financial difficulties due to multiple problems including terrorism, lack of FDI and suspension of foreign aid. The government approached the IMF for financial help which approved loans under certain conditions related to domestic financial management, actions against militant groups as desired by international elites and reforms in the monetary regime. The most controversial IMF condition was the withdrawal of subsidies, a major issue in a heavily subsidised economy; utilities like electricity and food items were subsidised by the government. The urban middle class was the biggest beneficiary of these subsidies. This was convenient for the incumbent PPP government that traditionally relied on rural peasants and the lower classes for electoral support. These classes were hardly beneficiaries of subsidised utilities because they had no access to such services (electricity, phones, etc.). The withdrawal of subsidies was a financial burden on the consumer class which in turn resulted in a decline in productivity and caused an industrial slowdown. Targeted aid packages were announced for the poor to support them financially, with the initial sum of 200 billion rupees offered through the Benazir Income Support Program.

The change in the power configuration forced elites to opt for new strategies to maintain their current status in the power game. The new government, which had an export base built on rural industries that was dominated by the landlord elite where it had support, had withdrawn the agricultural product price manipulations opportunity available to industrialist elites. Since agricultural products produced in Pakistan were selling at prices
less than the production cost, they were much cheaper in the international market and such price manipulation was managed during various regimes by industrialist elites. Apart from locally manipulated demand and supply, the industrialist elite had been successfully receiving favourable import government rents for imports and exports. Given the dominance of the landlord elite, coupled with its rural support base, the incumbent government decided to withdraw subsidies and moved towards ending manipulation of prices of agriculture products (Dorosh & Salam, 2008).

The democratically elected government of 2008 had initially dealt with the wheat support price to help landlord elites. Since wheat’s price has traditionally been less than half of the international price, in order to please the landlord elite and peasants at the cost of the urban classes, the government doubled it and in later years tripled it, resulting in a massive flow of funds from the urban to rural economy. However, the economic slowdown caused by the drop in prices of cotton, the biggest cash crop, was to some extent addressed by allowing the export of unprocessed cotton. This led to a shift in demand for consumer items from the urban to the rural economy (Rana, 1990).

Massive government borrowing from domestic banks also constrained the availability of credit in the form of consumer credit and credit card borrowing by urban consumers and shifted the pattern of consumption towards rural consumers. As a result, production of two-wheeled vehicles such as motorcycles and basic commodities increased in rural areas. Several industrial groups that previously depended on urban consumers moved into consumer products like motorcycles for rural consumers which were in high demand due to the poor transportation infrastructure. The large industrial groups engaged in the consumer goods market had now started investing in new manufacturing firms specifically targeting rural consumers (Pasha, Ghaus & Malik, 1989). On one hand, locally, the industrial groups started targeting rural consumers and to cater their demand
of low priced products, they started shifting their business units abroad to countries with cheaper labor and capital cost.

5.4 Corporate Development of Pakistan

The epochal political and economic events that had affected corporate development in Pakistan from 1971 to 2013 began with the separation of Bangladesh from Pakistan. The data gathered about corporate development for this study was from the Karachi Stock Exchange (KSE). The Stock Index was used as an indicator to measure the growth pattern of the corporate sector. Spears (1991), Levine and Zervos (1998), Atje and Jovanovic (1993), Comincioli (1996), Levine and Zervos, (1998) Filer et al. (1999), Tuncer and Alovsat (2001), Levine and Zervos (1995) and Demirguc-Kunt (1994) support the view that stock markets promote economic growth. With a well-functioning financial or banking sector, stock markets can boost economic development (Rousseau & Wachtel, 2000; Beck & Levine, 2003). Accordingly, the KSE index was used to trace the corporate development of Pakistan. The epochal events which brought about major changes in this road to corporate development are indicated in Figure 5.1. Source: KSE Analysis Branch

![Diagram: Epochal Events & Its Impact on Corporate Sector, 1971-1991]

FIGURE 5.1: Epochal Events & Its Impact on Corporate Sector, 1971-1991
Figure 5.1 indicates the corporate elite’s loss of confidence during the nationalization process of Bhutto in the early 1970s. This loss of confidence could not be regained quickly after a change of government. It took almost a decade and much publicly-generated incentives for businesses to get the corporate elite to reinvest in the economy. After half of Pakistan was separated as Bangladesh in December 1971, in May 1972, 60 companies were delisted from the KSE. The companies that remained were negatively affected by the nationalization policy. Bhutto’s initial enthusiasm for nationalization did not last long, as his bureaucratic appointees could not adequately manage the industrial firms nor could they produce the same level of profits as before (Gustofsen, 1973). On the other hand, the corporate elite remained suspicious of Bhutto and investment in the private sector suffered due to fluctuations in the regime’s public policies. The stock market trends indicate a minimum trading trend during the Bhutto regime.

Later, in July 1977, when Zia announced new incentives in his budget for private investors, the KSE registered a slight upward push, compared to the overall stagnant performance of the corporate sector for many years. Apart from governments support in the shape of incentives, foreign aid from the United States through investments in the economy because of the Afghan war had given the stock market a strong lift. However, although the government announced incentives for the stock market in August 1988, this did not receive the desired response from the corporate sector. However, after the death of Zia, the new government’s neoliberal policies, specifically its pro-privatization agenda, gave the KSE a sharp upward push. The stock index, which remained at between 50 and 300 points over the last twenty years, suddenly jumped to about 1500 firms in 1991, when the stock market was opened to foreign investors and following privatization.
FIGURE 5.2: Epochal Events & Its Impact on Corporate Sector, 1991-1997

Figure 5.2 shows the performance of the KSE from 1991 to 1997. These were the years when many epochal events occurred involving the corporate sector and which shape its current structure. This decade, labelled “Mixed Democracy,” refers to a time when Pakistan had eight different interim and elected governments. During this decade, the corporate sector had registered numerous changes in its performance due to severe variations in political and economic conditions. The Greenfield projects in 1994 encouraged industrialists to invest in power plants and industries. However, these projects were politicized by the next government and were stopped. The law and order situation in the country also started worsening, negatively affecting stock market performance.

(Source: KSE Analysis Branch, 2012)
FIGURE 5.3: Epochal Events & Its impact on Corporate Sector, 1997-2004

Figure 5.3 shows the sudden drop in the KSE index due to foreign account sanctions placed by the United States as a result of a nuclear test by Pakistan in June 1998. This led to a sudden drop in the stock market and almost all the corporate activities ceased. Such a drastic fall in economic activities was justified as the reason for the fourth military coup in 1999. The Musharraf government introduced a new economic agenda which facilitated private investments.

One year after its introduction, the terrorist 9/11 attack in the United States occurred; this dragged the stock market down. Political stability within the country and international events which involved Pakistan directly or indirectly did not allow the corporate sector to take long term decisions. Likewise, following the footsteps of the last military regime led by Zia, Musharraf became a US ally in the war against terror; this resulted in a strong upward push in the stock market.
FIGURE 5.4: Epochal Events & Its Impact on Corporate Sector, 1998-2008

Figure 5.4 shows the position of the stock market during the fourth military regime of General Musharraf. It indicates that although Pakistan had tense relations with India in 2004, over the line of control at Kargil, which led to a slight KSE downturn, the overall performance of the stock under this regime was good, like under other military regimes. Previous military regimes saw a strong inflow of foreign assistance from the United States and other allied countries at a cost of being a driveway to South Asia to control and influence neighbouring countries. The Musharraf regime fell following Benazir Bhutto’s assassination, leading to a change of government that provided the PPP another opportunity to govern. It was under this democratic regime that the KSE registered its most sensational growth, compared to the past thirty years. Though the country was suffering from energy crises which reduced total investments, corporate elites invested and established many new businesses in different industries. Though the first democratic transition regime (2008-13) saw a number of natural and economic policy disasters like floods in 2010 and continuous energy crises, the government managed to obtain IMF
loans. The underlying macroeconomic challenges still needed to be addressed through
decisive structural reforms instead of simply

FIGURE 5.5: Epochal Events & Its Impact on Corporate Sector, 2007-13

In short, the State Bank, in its 2012 economic performance report, summarized that there
were little risks associated with investing in the economy. This was due to the following
reasons: the size of the fiscal deficit and how it was to be addressed. This provided
comfort to the FX market in 2014. Meanwhile, Institutional strengthening of tax
authorities (federal as well as provincial) helped increase the tax base and collection. A
balanced approach to energy reforms that supplemented tariff rationalization with strict
enforcement on theft, overdue bills, better management practices, and decisive steps to
encourage the use of alternate fuel sources (e.g. coal) was widely welcomed by industry.
Steps were taken to increase power generation, which required fresh liquidity to secure
fuel supplies; this was addressed. In government, a strictly commercial orientation during
reforms of public enterprises, especially Pakistan Railways, PIA and Pakistan Steel Mills,
was widely seen as imperative. Finally, the risk-appetite of commercial banks increased\textsuperscript{73}. The impact of these issues on the development of business groups are dealt with in the next chapter.

\textsuperscript{73} http://www.sbp.org.pk/reports/quarterly/fy13/Third/QR3FY12-13.pdf. Pg. no: 5
6.1 Nishat Group

The Nishat Group is currently Pakistan’s largest business group with fixed/current assets of over Rs.300 billion (US$5 billion) and the CEO of this group Mian Mansha is considered the country’s richest man. In 1970, the Mansha family business was the fifteenth largest\(^74\); in 1990 it jumped to sixth and just three years later it became the largest enterprise in corporate Pakistan. What happened during those three years is mostly credited to Mansha’s close acquaintance with the then Prime Minister, Nawaz Sharif. However, Mansha’s business intellect and ability to make the right decisions at the right time also helped.

In 1948, Mansha’s father, Mian Mohammad Yahya, and his three brothers incorporated a partnership called the Nishat Corporation. The company was named after Nishat Haroon, the three year old grandson of Mian Mohammad Yaqub, the eldest of the four brothers. Later, the child who gave his name to the group was not the one who took charge of the company. Rather, Mian Mohammad Mansha, the second son of Mohammad Yahya took charge of the Nishat Group.

Nishat Haroon was born to Mian Farooq, who was married to the daughter of Mian Fazal Rehman of United Textile Mills. In 1970, Nishat comprised six firms in West Pakistan, namely Nishat Corporation, Nishat Sarhad Textile, Nishat Textile Mills (Faisalabad), Nishat Chemical Industries, Nishat Agencies (Kotri) and Karimi Industries (Nowshera). The companies in East Pakistan included Nishat Jute Mills, Qadaria Textile Mills,

\(^74\) See table 1.1
Tangail Cotton Mills and Chemical Industries of Pakistan. The business in East Pakistan was headed by Aftab Iqbal, one of several cousins of Mian Mansha, whose whereabouts is not known today. Mian Muhammad Mansha was born in Lahore and belongs to a wealthy Chiniot family. His privileged upbringing allowed him to enjoy an early business education at a top university in London. When the division of Nishat Group assets took place in 1969 after the death of his father, Mansha bargained for Nishat Mills, based in Faisalabad, for which he had to pay an additional amount to his uncles. This act saved him from losses in East Pakistan that became the lot of his uncles. Nishat currently comprises 21 enterprises including 13 listed companies with manufacturing assets of nearly Rs. 27 billion. Three of Mansha’s close relatives, Saigols, Jehangir Elahi and S.M. Saleem of United Bank, are among the top 45 industrial families in Pakistan. Nishat is Pakistan’s largest industrial and financial conglomerate, controlling assets worth Rs.192 billion. The group company structure is indicated in Figure 6.1.

The ownership structure of the Nishat Group in figure 6.1 indicates that its control of the public-listed companies of the group is through two holding companies, Nishat Chunnian and Nishat Pak. The Group’s assets were parcelled out to these two subgroups, or holding companies, in the 1990s. The Nishat Pak group was led by Mian Mansha and the Nishat Chunnian group was led by a nephew of Mian Mansha. Nishat Pak is considered one of the best managed business groups in Pakistan’s corporate sector. Through these two holding companies, the Group control companies involved in a range of sectors, including in textiles, power generation, insurance, banking and cement production.
FIGURE 6.1: Company Structure & Shareholding Pattern of Nishat Group

The Group has majority share ownership of these firms, providing the family the ability to control decision-making in all companies, as per Porta’s theory. The company structure also indicates that the group which started out in the textile industry had expanded into the cement production, finance and power sectors, emerging as a highly diversified conglomerate. These have been fastest growing industries over the last twenty years in Pakistan.

A detailed analysis of the shareholding pattern of the companies of the Nishat Group indicated the presence of a large number of associated firms or institutional investors. For example, in D.G. Khan Cement, institutional investors holds the dominant position with 48 percent of total shares, while in Sanofi Aventis, a foreign holding company M/s.
SECIPE, France holds a 81 percent stake. In MCB, the largest shareholders are associated companies, collectively controlling more than 50 percent of total shares; foreign investors have a 16 percent stake. In Adamjee Insurance, the ownership structure is one where equity is quite evenly spread between associated companies (36 percent), institutional investors (31 percent) and general public (30 percent). But out of institutional investors, again MCB holds 82 percent of shares\textsuperscript{75}.

This study analysed the companies listed on the Karachi stock exchange on August 2013. It examined eight public listed companies of the Nishat Group representing its participation in the textile, financial, power, and cement sectors. The details of these companies are provided in appendix (B). The name of the companies and information about them are listed in Table 6.1.

**TABLE 6.1: Public Listed Companies \\& Year of Association with Nishat Group**

<table>
<thead>
<tr>
<th>No</th>
<th>Company Name</th>
<th>Industry</th>
<th>Group owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nishat Mills Limited</td>
<td>Textile</td>
<td>1956</td>
</tr>
<tr>
<td>2</td>
<td>Nishat Chunnian Limited</td>
<td>Textile</td>
<td>1991</td>
</tr>
<tr>
<td>3</td>
<td>DG Cement</td>
<td>Cement</td>
<td>1992</td>
</tr>
<tr>
<td>4</td>
<td>Adamjee Insurance</td>
<td>Insurance</td>
<td>1992</td>
</tr>
<tr>
<td>5</td>
<td>Muslim Commercial Bank (MCB)</td>
<td>Financial</td>
<td>1991</td>
</tr>
<tr>
<td>6</td>
<td>Nishat Chunnian Power</td>
<td>Power</td>
<td>2010</td>
</tr>
<tr>
<td>7</td>
<td>Nishat Power</td>
<td>Power</td>
<td>2010</td>
</tr>
<tr>
<td>8</td>
<td>PakGen</td>
<td>Power</td>
<td>2010</td>
</tr>
</tbody>
</table>

To grade the performance of the business groups, based on three major ratios, i.e. their return-on-assets (ROA), return-on-equity (ROE) and debt-to-equity (DTE), under

\textsuperscript{75} www.icmap.com.pk/News_Pdf/Pattern_shareholding.pdf
different regimes, a statistical analysis was conducted. In this study, the ROA, ROE and DTE of each group for each year were classified as per regime, from regimes 1 to 8. This was done to determine if there were any significant differences in the performance of business group under different regimes (see Table 3.2., page 106). Based on the performance indicators, ROA, ROE and DTE, the change in the performance of all groups during their date of incorporation until 2012 was studied. The significance of the analysis of these three ratios was checked by applying one-way ANOVA\textsuperscript{76}. The ANOVA test was applied using all the three ratios, representing also their ability to access loans, represented in their DTE ratio. The ANOVA test shows that the values of all three measured variables are significant (see Table 6.2).

\begin{table}
\centering
\begin{tabular}{|l|lll|ll|}
\hline
 & Sum of Squares & Df & Mean Square & F & Sig. \\
\hline
NishatROA & 199.965 & 7 & 28.566 & 5.271 & .000 \\
 & 292.680 & 54 & 5.420 & & \\
 & 492.645 & 61 & & & \\
\hline
NishatROE & 1742.319 & 7 & 248.903 & 7.988 & .000 \\
 & 1682.544 & 54 & 31.158 & & \\
 & 3424.864 & 61 & & & \\
\hline
NishatDTE & 1169.624 & 7 & 167.089 & 20.120 & .000 \\
 & 448.448 & 54 & 8.305 & & \\
 & 1618.073 & 61 & & & \\
\hline
\end{tabular}
\caption{One Way ANOVA Results of Ratios of Nishat Group}
\end{table}

The ANOVA analysis proves that the performance of the group varied under different regimes; all three measured variables, ROA, ROE and DTE indicated much variation.

\textsuperscript{76} See page 106 for the hypotheses of this study.
This proves that the H1 proposition is true, allowing for the application of the Duncan test\textsuperscript{77} to grade the group’s performance, from best to worst, as per regimes.

To verify the argument that Nishat Group benefited by networking with political elites, a financial analysis of the group was also conducted. The DTE test was applied to determine under which regime this variable was the highest. The results show that DTE was the highest during the mixed democracy (MD). When comparing all three variables, they should support each other, but Nishat Group’s ratio analyses offer a different picture. When the average of all ratios for each regime was taken, the average DTE for the Nishat Group was highest in the MD regime.

According to the rules of finance, the Group’s ROA should also be highest compared to other regimes during the MD period; however, the results do not support this rule. The average ROA of the Nishat Group was only 1.024 percent during the MD, but its DTE was 10.27 times higher. This means that the group had been able to increase its debt ratio, as compared to its equity, much more during the MD period; this contention is supported by its other performance indicator, i.e. ROA. The easiest and least expensive source of debt for any firm is bank loans. Nishat Group was able to obtain huge loans which were not backed by its ability to repay them as its ROA figures did not show any positive or encouraging results. This suggests that during the MD period, when Nawaz Sharif was in power, Mian Mansha’s close ties with him allowed his group to be favoured when seeking loans.

\textsuperscript{77} Duncan’s multiple range test, or Duncan’s test, provides significance levels for the difference between any pair of means, regardless whether a significant F resulted from an initial analysis of variance.
The group expanded on the basis of loans from banks, which normally becomes accessible on the basis of political contacts and rent seeking activities. The Group’s slow but continuous expansion and entry into different industries indicates the trust of shareholders in this group. The Mansha family was also able to win the trust of shareholders, through continuous dividend disbursement and investment decisions in emerging industries that generated much returns.

This study further observed the financial performance of the Nishat Group under different regimes. As debt is the cheapest source of finance, though it helped increase profitability, the company’s DTE soared to 10.27 times during the MD regime. Meanwhile, the ROA was only 1.02 percent, which was not that strong to support such DTE figures. There is one major reason for this increased DTE. During the MD regime, Nishat obtained control of the bank, MCB, after its privatization. Normally the DTEs of banks are higher as their major form of growth is the disbursement of loans, which increases their debt ratio. To check this, when the DTEs of individual companies were measured, MCB plays a major role in the increase of the average DTE ratio of this regime (see Table 6.3).

<table>
<thead>
<tr>
<th>Graphical Presentation of Ratios of Listed Companies of Nishat Group</th>
<th>Classification of Nishat Group’s Performance using Duncan test under different Regimes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nishat ROA</td>
<td>Duncan(^{ab})</td>
</tr>
<tr>
<td></td>
<td>Regimes</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1DR</td>
</tr>
<tr>
<td></td>
<td>MD</td>
</tr>
<tr>
<td></td>
<td>4MR</td>
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<td>1DT</td>
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<tr>
<td></td>
<td>2MR</td>
</tr>
<tr>
<td></td>
<td>3MR</td>
</tr>
<tr>
<td></td>
<td>1MR</td>
</tr>
<tr>
<td></td>
<td>Sig.</td>
</tr>
</tbody>
</table>
Analysis of Results:

**Financial:**

Individual company analysis of Nishat Group shows that Nishat Mills was performing well at the start. However, its ROA decreased after 1971 and registered negative values in 1976 due to the division of the Group’s assets among family members. After that, the company sustained low returns on its assets, but registered steady performance.

**Statistical:**

The results of the Duncan test suggest that the regime with the highest mean ROA (best performance) with 5.0042 was 1MR (1958-68) when it had only Nishat Mills as a public limited company. The least mean ROA was during the 1DR (1972-77) with 0.0616. The reason for this was nationalization, as it affected most of the industrial firms and the family decided to divide the business empire among its members.

**Interpretation:**

The variation among the average ROA per regime has been between 0.0616-5.0042. This indicates that the Nishat Group had never been a group which attained a high return on its assets under any regime, but has been able to sustain its pace of growth after 1990.

<table>
<thead>
<tr>
<th>Regimes</th>
<th>N</th>
<th>Subset for alpha = 0.05</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>1DR</td>
<td>6</td>
<td>.325</td>
</tr>
<tr>
<td>1MR</td>
<td>11</td>
<td>7.7344</td>
</tr>
<tr>
<td>3MR</td>
<td>11</td>
<td>7.8139</td>
</tr>
<tr>
<td>2MR</td>
<td>3</td>
<td>8.6865</td>
</tr>
<tr>
<td>MD</td>
<td>10</td>
<td>8.7923</td>
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<tr>
<td>4MR</td>
<td>9</td>
<td>15.435</td>
</tr>
<tr>
<td>1DT</td>
<td>5</td>
<td>16.641</td>
</tr>
<tr>
<td>Sig.</td>
<td>.917</td>
<td>.760</td>
</tr>
</tbody>
</table>

Analysis of Results:

**Financial:**

The Group’s major listed companies started growing after privatization was implemented in the 1990s. A strong ROE is evident in these years. Investigating a company’s ROE can help gauge a company’s ability to invest its resources to produce profits. Due to the Group’s ability to win privatization bids, shareholders increased their investments in Nishat’s companies.

**Statistical:**

The best performance of the Group was during the 1DT and its worst was during the 1DR and the difference is huge, from -0.3255 to 16.6419. This indicates a sharp rise and fall of shareholders trust of the companies of the group.
Interpretation:

The sharp rise and fall in ROE of the Nishat Group reveals two things. First, the vulnerability of trust of shareholders in the companies of Nishat Group. Second, the duration of investments of shareholders in the companies of the Group depend on whether it receives any special favors from a specific regime. However, since the year 2000, the group has developed a good market reputation and people are interested in buying its shares.

<table>
<thead>
<tr>
<th>NishatDTE</th>
<th>Duncan^ab</th>
<th>Subset for alpha = 0.05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regimes</td>
<td>N</td>
<td>1</td>
</tr>
<tr>
<td>1MR</td>
<td>11</td>
<td>.624</td>
</tr>
<tr>
<td>2MR</td>
<td>3</td>
<td>1.052</td>
</tr>
<tr>
<td>3MR</td>
<td>11</td>
<td>1.145</td>
</tr>
<tr>
<td>1DR</td>
<td>6</td>
<td>1.439</td>
</tr>
<tr>
<td>1DT</td>
<td>5</td>
<td>3.937</td>
</tr>
<tr>
<td>4MR</td>
<td>9</td>
<td>10.084</td>
</tr>
<tr>
<td>MD</td>
<td>10</td>
<td>10.664</td>
</tr>
<tr>
<td>Sig.</td>
<td>.432</td>
<td>.069</td>
</tr>
</tbody>
</table>

Analysis of Results:

Financial:

The rapid increase in DTE during the MD regime was due to the inclusion of Muslim Commercial Bank (MCB) in Nishat Group. Since it is a bank and financial institutions’ DTEs are always high, this suddenly increased the Group’s DTE. Apart from MCB, the DTEs of other companies during the MD regime increased, compared to previous regimes.

Statistical:

The Duncan test suggests that the highest DTE (best regime) of the group was under the MD (1989-98), when they acquired a number of the firms that were privatized.

Interpretation:

MCB is a bank and its major performance is measured on the basis of their loan disbursing ability and this increased the Group’s debt ratio.
<table>
<thead>
<tr>
<th>Items/ years</th>
<th>NISHAT</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ROA</td>
<td>ROE</td>
<td>DTE</td>
</tr>
<tr>
<td>1MR</td>
<td>7.864</td>
<td>12.15</td>
<td>0.982</td>
</tr>
<tr>
<td>2MR</td>
<td>3.815</td>
<td>7.383</td>
<td>0.881</td>
</tr>
<tr>
<td>1DR</td>
<td>-1.699</td>
<td>-7.972</td>
<td>1.901</td>
</tr>
<tr>
<td>3MR</td>
<td>2.232</td>
<td>11.61</td>
<td>1.145</td>
</tr>
<tr>
<td>MD</td>
<td>1.024</td>
<td>11.1</td>
<td>10.27</td>
</tr>
<tr>
<td>4MR</td>
<td>1.852</td>
<td>15.44</td>
<td>10.08</td>
</tr>
<tr>
<td>1DT</td>
<td>3.191</td>
<td>16.64</td>
<td>3.937</td>
</tr>
</tbody>
</table>

**Financial:**

During the MD, debt was 10 times that of equity in the overall capital mix of the Group as the DTE was 10.27. However, according to regulations stipulated by the central bank, Bank of Pakistan, the maximum level of the DTE of a company is 1:4. In Nishat’s case, it was allowed to have DTE of 1:10, which means companies of the Group were allowed to add debt to its capital structure to the extent of 10 times of equity.

**Interpretations:**

Mian Mansha controlled his family business after the division of assets between family members in 1977. By that time it relied more on loans to expand, which is obvious by its high DTE under later regimes and the low ROAs indicates that expenses were high during this period.

### 6.2 Kohinoor Group

The Saigol Group or “Kohinoor Group” is a group of companies owned by one of Pakistan’s wealthiest families, the Saigols/Sehgals. The family and its companies are based in Lahore. Kohinnor Group (Saigol) was ranked second in 1970 as per control of industrial and manufacturing assets (556 million Rs), fourth in 1990 and eighth in 2012\(^78\).

The Saigols, who hail from a place called Khotia (now Saigolabad) near Chakwal, were in farming and did some trading before Sayeed Saigol, the second among four brothers, ventured out to set up a shoe shop in Calcutta in the 1930s.

\(^78\) See Table 1.1
Amin Saigol was the founder of the Saigol dynasty, starting a shoe shop in 1890 that eventually developed into Kohinoor Rubber Works in 1938. In 1948, the Saigols migrated from Calcutta and initiated their business in Faisalabad, the textile city of Pakistan, under the banner of Kohinoor Industries Limited. Tariq Saigol is the eldest brother. He is the head of Kohinoor-Maple group, which owns the Kohinoor Textile Mills and Maple-Leaf Cement. He is known to be openly critical of the Pakistani government’s lack of interest in the textile sector. Nasim Saigol heads PEL and Kohinoor industries. Rafiq is the youngest brother; he oversees the group’s other business interests.

Sayeed Saigol’s business expanded into a rubber shoe factory — Kohinoor Rubber Works. When World War II came to Burma (now Myanmar), it gave a huge boost to his business, as demand from the Allied forces for shoes, raincoats and other rubber products soared dramatically. By the early 1940s, Saigol, who had seen the division of British India coming, transferred his property to Lahore. After the partition, he saw an opportunity in the textile business, and helped by his two younger brothers — Yousuf and Bashir — set up his first spinning mill in Lyalpur (now Faisalabad) in 1949.

The family expanded its spinning capacity to Rawalpindi and Gujjar Khan and added weaving, finishing and printing facilities, before buying a sugar mill in Jauharabad from the Pakistan Industrial Development Corporation (PIDC). Frustrated that Punjabi businessmen had poor access to bank credit, they founded the United Bank in 1958-59, and diversified into the basic chemicals business as well. By the early 1960s, the Saigols had become one of the top business groups. This Group was one of the 22 families that Mehbub ul Haq had alleged dominated the economic and financial life of Pakistan — until Bhutto started nationalizing their assets.

The Group is managed by three Saigol brothers: Tariq, Nasim and Taufeeq. Also part of the family is their sister, Naz Mansha, now married to Mian Muhammad Mansha Yahya
of the Nishat Group (see Figure 6.2). This marriage played a core means to develop a long-term business link with the Nishat Group; both groups would be jointly involved in numerous investment ventures in future. The shareholding pattern of the companies of Kohinoor Group indicates an interlocking relationship that allows for control by key family members in their capacity as directors. Unlike Nishat Group, foreign investor involvement in the Kohinoor Group is not significant. There are institutional investors, but not as many as compared to other business groups. The shareholding pattern of Kohinoor Group indicates that the majority of the shares are with the family members, who are also directors of the group.

![Company Structure & Shareholding Pattern of Kohinoor Group]

**FIGURE 6.2:** Company Structure & Shareholding Pattern of Kohinoor Group
The Kohinoor Group has public listed companies involved in the textile, cement, electronics and power industries. In this study, twelve listed companies were analysed in detail in 2012. The brief details of all the companies is presented in appendix (B). The names and the year they became associated with the group are listed in Table 6.4.

**TABLE 6.4: Public Listed Companies & Year of Association with Kohinoor Group**

<table>
<thead>
<tr>
<th>No</th>
<th>Name of Firm</th>
<th>Year</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Azam Textile Mills</td>
<td>1991</td>
<td>Textile</td>
</tr>
<tr>
<td>2</td>
<td>Kohinoor Energy</td>
<td>2001</td>
<td>Energy</td>
</tr>
<tr>
<td>3</td>
<td>Kohinoor Genertek</td>
<td>2001</td>
<td>Automobiles</td>
</tr>
<tr>
<td>4</td>
<td>Kohinoor Industries Ltd</td>
<td>1951</td>
<td>Textiles</td>
</tr>
<tr>
<td>5</td>
<td>Kohinoor Power Company Limited</td>
<td>2001</td>
<td>Energy</td>
</tr>
<tr>
<td>6</td>
<td>Kohinoor Textile Mills Limited</td>
<td>1973</td>
<td>Textiles</td>
</tr>
<tr>
<td>7</td>
<td>Kohinoor Weaving Mills Limited</td>
<td>1971</td>
<td>Textiles</td>
</tr>
<tr>
<td>8</td>
<td>Kohinoor Looms</td>
<td>1989</td>
<td>Textiles</td>
</tr>
<tr>
<td>9</td>
<td>Maple Leaf Cement Limited</td>
<td>1964</td>
<td>Cement</td>
</tr>
<tr>
<td>10</td>
<td>PELL</td>
<td>1989</td>
<td>Home Appliance</td>
</tr>
<tr>
<td>11</td>
<td>Kohinoor Sugar Mills</td>
<td>1973</td>
<td>Sugar</td>
</tr>
<tr>
<td>12</td>
<td>Saritow Spinning Mills</td>
<td>1991</td>
<td>Textiles</td>
</tr>
</tbody>
</table>

As with the analysis of the Nishat Group, the same format was followed for the Kohinoor Group. Table 6.5 explains the results of one-way ANOVA, applied to check the significance of the hypothesis. It shows that with the ROA, the performance of the Group in each regime was almost the same. Therefore, the ANOVA and Duncan tests cannot be applied. With ROE and DTE, the performance of groups is not the same in each regime so both tests were applied.
### TABLE 6.5: One-Way ANOVA Results of Ratios of Kohinoor Group

<table>
<thead>
<tr>
<th>Group</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>KMGLROA</td>
<td>Between Groups</td>
<td>254.766</td>
<td>7</td>
<td>36.395</td>
<td>1.370</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>1435.025</td>
<td>54</td>
<td>26.575</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1689.791</td>
<td>61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KMGLROE</td>
<td>Between Groups</td>
<td>1548.124</td>
<td>7</td>
<td>221.161</td>
<td>2.231</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>5351.993</td>
<td>54</td>
<td>99.111</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>6900.117</td>
<td>61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KMGLDTE</td>
<td>Between Groups</td>
<td>124.491</td>
<td>7</td>
<td>17.784</td>
<td>4.942</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>194.338</td>
<td>54</td>
<td>3.599</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>318.829</td>
<td>61</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### TABLE 6.6: Financial & Statistical Analysis of Kohinoor Group

#### Graphical Presentation of Ratios of Listed Companies of Kohinoor Group

#### Classification of Kohinoor Group Performance using Duncan test in Different Regimes

<table>
<thead>
<tr>
<th>KMGLROE</th>
<th>Duncan(^{a,b})</th>
<th>Regime</th>
<th>N</th>
<th>Subset for alpha =0.05</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>1DT</td>
<td>5</td>
<td>-6.5418</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1BR</td>
<td>7</td>
<td>3.6277</td>
<td>3.627</td>
<td></td>
</tr>
<tr>
<td>3MR</td>
<td>11</td>
<td>3.9560</td>
<td>3.956</td>
<td></td>
</tr>
<tr>
<td>1MR</td>
<td>11</td>
<td>5.2181</td>
<td>5.218</td>
<td></td>
</tr>
<tr>
<td>1DR</td>
<td>6</td>
<td>7.292</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2MR</td>
<td>3</td>
<td>10.202</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4MR</td>
<td>9</td>
<td>11.053</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MD</td>
<td>10</td>
<td>12.176</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>.056</td>
<td>.190</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Financial:**

The ROE of companies shows that Azam Textile had a negative ROE in earlier years, which can be due to its investment in infrastructure or other marketing and developmental expenses. One other company which registered a huge fall in ROE is Kohinoor Sugar Mills, with -263% of ROE in 2007. This put a huge burden on the Group’s liabilities/debt, and it kept increasing till 2013.

**Statistical:**

The regime under which this Group registered its highest ROE was MD; the least was during the 1DT. The variation in the means of the ROAs under different regimes is from -6.5418 to 12.1763. This indicates a vast variation in returns under different regimes. However, this variation is more obvious after the 3MR. The only regime in which the Group faced a negative average ROE was the 1DT.

Since 2007, the company was facing negative equity, resulting in declining performance.
Financial:

The DTE of Kohinoor shows that its companies rely heavily on debt. In their financial mix, their DTE has always been quite high, though the ROA does not support this high DTE.

Statistical:

The Duncan test results indicate that the regime under which the Group had the highest DTE was 3MR and the lowest was 1BR. The variation in the means of regimes as per DTE was from 0.4720 to 4.8491. The DTE range did not fall out of the acceptable range, as stated by the State Bank of Pakistan which is 1:4.

Reason:

Kohinoor Group’s major companies were established during the MD, which was the regime after 3MR. During the 3MR, the Group won strong support for projects established at the end of this regime.

Financial:

By taking averages of all ratios in each regime, it is clear that as per DTE, the Group had most access to loans during the 3MR. But, according to its ROA, the Group’s performance was best during the 1BR. These figures do not match as the DTE should
be technically highest during the regime when it registered its highest ROA and ROE. Since this was not the case, it suggests an unjustified access to loans.

**Reason:**

Being the oldest group, Kohinoor obtained numerous benefits during the period from the 1BR until 1MR. However, after nationalization, the Group’s performance declined leading to the accumulation of massive debts during the 3MR. The figures for 2008-2012 indicate negative ROA and ROE, due to loss of equity. Yet, Group managed to attain positive DTE with 3.002 times.
6.3 Dawood Group

The Dawood Group was ranked Pakistan’s biggest group in 1970 as per control of industrial and manufacturing assets (557 million Rs.), 3rd in 1990 and 15th in 199779. Like the other business groups, the division of East and West Pakistan and nationalization undermined the development of Dawood. Today, the original Dawood Group stands split into three factions. The owners of this empire refrained from opening any unit for a good part of some 20 odd years. This group was founded by Ahmed Dawood, but later the dynasty found itself divided among the three Dawood brothers – Ahmad, Sadiq and Suleman. The key players in this group led lives in exile during the Bhutto regime. Former Federal Minister for Commerce and Trade Razzak Dawood, the son of the late Suleman Dawood, runs the Descon Engineering and a few other units dealing in manufacturing refrigerators and other consumer products. Hussain Dawood, son of Ahmed Dawood, has already rendered meritorious philanthropic services in the field of education by supporting brilliant and needy students. Hussain runs Dawood Hercules, some Modaraba companies and a few textile units.

As in West Pakistan, the group was active in industrial growth in the jute, paper and chemical industries in East Pakistan. However, after the separation of the East wing of Pakistan, the Dawood Group lost all its investments in newly-formed Bangladesh. Its East Pakistan industrial undertakings constituted almost 60 percent of the Group’s activities. In 1974, the business enterprise suffered further setbacks when the government nationalized a number of its large industrial undertakings; the group also lost its flagship company, Dawood Petroleum Ltd. Over the next ten years, there was no remarkable investments by the Group. In 1984, under the second military regime of Zia, due to the

79 See Table 1.1
policy shift of promoting private investment, the Dawood Group installed a new polyester plant at Dillon unit.

Currently, Hussain Dawood is the elected chairman of the Group, a post he has held since 2002. Under his leadership, Dawood Group took a positive steps to increase its investments. For example, in 2003, Dawood Hercules Chemicals Inc. acquired 61 million shares (10 percent) of Sui Northern Gas Pipelines Ltd. Later, in 2012, DH Corp. and its affiliates collectively acquired a 16.42 percent stake, comprising 190 million shares, in HUB Power Company. Hussain Dawood amalgamated all textile companies of the group into a single entity named Dawood Lawrencepur Ltd in 2004. It also acquired a majority stake in Inbox Business Technologies Pvt. Ltd., Pakistan’s leading computer brand. In 2006, Hussain Dawood assumed Chairmanship of Engro Chemical Pakistan Ltd.

**FIGURE 6.3:** Company Structure & Shareholding Pattern of Dawood Group
The shareholding pattern of the Dawood Group indicates that majority ownership has remained with family members to allow them to be controlling partners in the public listed companies. The Dawood Group was also involved in the textile industry from the beginning, like the Nishat Group, but diversified into chemicals, finance, power and technology.

The major stakeholders in the share capital of Dawood Hercules are institutional investors with 84 percent of total shares, allowing them an interest in banks, financial institutions, modaraba and mutual fund companies; the directors own only 10 percent of this enterprise. Whereas, in Engro Corp, a larger portion of the shares are with associated companies in the Dawood group. This indicates that Engro Corp’s managerial decisions are under control of the Group though this is not the case in Dawood Hercules where institutional investors have a major say in decisions.

This study examined nine public listed companies in the Dawood Group. The brief details of these companies are provided in Appendix (B). The Dawood Group has invested in the textiles, chemicals, foods and beverages and insurance industries. The names of the public listed firms along with the years they became associated with the Dawood Group are presented in Table 6.7.

<table>
<thead>
<tr>
<th>No</th>
<th>Name of Firm</th>
<th>Year</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Central Insurance Company Ltd</td>
<td>1960</td>
<td>Insurance</td>
</tr>
<tr>
<td>2</td>
<td>Dawood Lawrencepur Mills Ltd</td>
<td>1955</td>
<td>Textile</td>
</tr>
<tr>
<td>3</td>
<td>Dawood Hercules Chemicals Ltd</td>
<td>1979</td>
<td>Chemicals</td>
</tr>
<tr>
<td>4</td>
<td>Engro Polymer &amp; Chemicals Ltd</td>
<td>2008</td>
<td>Chemicals</td>
</tr>
<tr>
<td>5</td>
<td>Engro Foods</td>
<td>2011</td>
<td>Food &amp; Beverages</td>
</tr>
<tr>
<td>6</td>
<td>Engro Chemicals</td>
<td>1968</td>
<td>Chemicals</td>
</tr>
<tr>
<td>7</td>
<td>BRR Guardian Modarba</td>
<td>1987</td>
<td>Financial</td>
</tr>
<tr>
<td>8</td>
<td>Dawood Leasing Company</td>
<td>1995</td>
<td>Financial</td>
</tr>
<tr>
<td>9</td>
<td>Financial Links</td>
<td>1994</td>
<td>Financial</td>
</tr>
</tbody>
</table>
The statistical analysis of the Dawood Group and results from the ANOVA indicates that in the ROE there is no variance in means during all regimes with a P value of 0.161. This supports the null hypothesis\textsuperscript{80}. Accordingly, the Duncan test was not applied on ROE values of the Dawood Group. The One-Way ANOVA results for the Dawood Group regarding all three ratios are presented in Table 6.8

| Table 6.8: One-Way ANOVA Results of Ratios of Dawood Group |
|----------------------------------|----------------|---------------|----------------|----------------|
|                                  | Sum of Squares | df | Mean Square | F | Sig. |
| Dawood ROA                       |                |    |             |   |      |
| Between Groups                   | 610.231        | 7  | 87.176      | 3.131 | .008 |
| Within Groups                    | 1503.707       | 54 | 27.846      |     |      |
| Total                            | 2113.938       | 61 |             |     |      |
| Dawood ROE                       |                |    |             |   |      |
| Between Groups                   | 3106.369       | 7  | 443.767     | 1.581 | .161 |
| Within Groups                    | 15154.014      | 54 | 280.630     |     |      |
| Total                            | 18260.383      | 61 |             |     |      |
| Dawood DTE                       |                |    |             |   |      |
| Between Groups                   | 7.791          | 7  | 1.113       | 3.013 | .010 |
| Within Groups                    | 19.948         | 54 | .369        |     |      |

**Table 6.9: Financial & Statistical Analysis of Dawood Group**

**Graphical Presentation of Ratios of Listed Companies of Dawood Group**

**Classification of Dawood Group Performance using Duncan test under Different Regimes**

<table>
<thead>
<tr>
<th>DawoodROA</th>
<th>Duncan\textsuperscript{H}</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regimes</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>IDT</td>
<td>5</td>
</tr>
<tr>
<td>2MR</td>
<td>3</td>
</tr>
<tr>
<td>1BR</td>
<td>7</td>
</tr>
<tr>
<td>3MR</td>
<td>11</td>
</tr>
<tr>
<td>1DR</td>
<td>6</td>
</tr>
<tr>
<td>4MR</td>
<td>9</td>
</tr>
<tr>
<td>MD</td>
<td>10</td>
</tr>
<tr>
<td>1MR</td>
<td>11</td>
</tr>
<tr>
<td>Sig.</td>
<td>.061</td>
</tr>
</tbody>
</table>

\textsuperscript{80} H0 = the performance of a business group is the same in all regimes
Financial:

The Dawood Group had always managed to earn good ROA for all companies with an average of 15 to 20% in all regimes. The decline of one year for financial links and Engro chemicals can be seen as an effect of political changes effecting returns, but on average the returns have been stable for all companies.

Statistical:

As per the Duncan test, the regime providing the highest mean value is 1MR of 1958-68, the time Dawood Group’s family member, Sadiq Dawood was an active member in politics. The companies that showed high returns in that regime were Engro chemicals and DH. The least mean value of ROA statistically is in 1DT which is perhaps due to a decrease in the average cost of Engro polymer and BRR Modarba. The mean variation in the return in different regimes was 4.0050 to 14.8240. This shows that on average companies managed to stay between reasonable rates of return during all regimes. Even in 1DR when the group was negatively affected by Nationalisation policy, its companies managed to earn a mean ROA value of 10.3448.

<table>
<thead>
<tr>
<th>Regimes</th>
<th>N</th>
<th>Subset for alpha = 0.05</th>
</tr>
</thead>
<tbody>
<tr>
<td>4MR</td>
<td>9</td>
<td>.9167</td>
</tr>
<tr>
<td>1BR</td>
<td>7</td>
<td>.9736</td>
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<tr>
<td>1MR</td>
<td>11</td>
<td>.9874</td>
</tr>
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<td>1DT</td>
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</tr>
<tr>
<td>MD</td>
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<td>1.5954, 1.5954</td>
</tr>
<tr>
<td>3MR</td>
<td>11</td>
<td>1.8443</td>
</tr>
<tr>
<td>Sig.</td>
<td>.087, .128</td>
<td></td>
</tr>
</tbody>
</table>

Financial:

For all years, the DTE of Dawood is in accordance with that permitted by central bank.

Statistical:

The regime under which the Group registered the highest mean value of DTE was the 3MR when General Zia attracted private investors to invest in the corporate sector. The lowest was during the 4MR. However, there was little difference, from 0.7792 to 1.8438. This indicates that the Dawood Group has never relied much on loans for business expansion. Most benefits accruing from political connections were in the shape of access to licenses and export contracts rather than access to loans.

Reason:
Dawood Group is the oldest group and has a strong market reputation. It has never been involved in cases involving debt problems. This is the only group who had direct involvement in politics in early years of 1BR and 1MR. This involvement had provided group an early bird edge in shape of establishing business units and availing export contracts.

<table>
<thead>
<tr>
<th>Regimes/years</th>
<th>DAWOOD</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ROA</td>
<td>ROE</td>
<td>DTE</td>
</tr>
<tr>
<td>1BR</td>
<td>17.93</td>
<td>64.25</td>
<td>2.272</td>
</tr>
<tr>
<td>1MR</td>
<td>14.82</td>
<td>31.71</td>
<td>0.987</td>
</tr>
<tr>
<td>2MR</td>
<td>5.195</td>
<td>12.4</td>
<td>1.291</td>
</tr>
<tr>
<td>1DR</td>
<td>10.34</td>
<td>21.68</td>
<td>1.086</td>
</tr>
<tr>
<td>3MR</td>
<td>8.58</td>
<td>27.8</td>
<td>1.844</td>
</tr>
<tr>
<td>MD</td>
<td>11.87</td>
<td>32.99</td>
<td>1.595</td>
</tr>
<tr>
<td>4MR</td>
<td>10.44</td>
<td>22.46</td>
<td>0.914</td>
</tr>
<tr>
<td>1DT</td>
<td>4.034</td>
<td>8.955</td>
<td>1.132</td>
</tr>
</tbody>
</table>

Financial:

By taking the averages for the three ratios during each regime, it is clear that the Dawood Group performed best during the 1BR where it earned the average ROA of 17.935 and the strongest returns on ROE.

Its least performance was during the 2MR but this was a transitional regime when Pakistan was facing regime change and a war. These factors explain its poor financial performance.

6.4 Packages Group

Packages Group (also known as Ali Group) became famous because of its core company, Packages Ltd. This Group is one of the oldest in Pakistan with roots preceding the partition. It was ranked tenth in 1970 as per control of industrial and manufacturing assets (178 million Rs) and fifth in 1990\(^1\). Syed Maratab Ali (1883-1961) was a famous Muslim businessman of joint India. He started business as a small shop in Ferozpur cantonment. From there, he started taking Army contracts and very soon established close links with

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\(^1\) See Table 1.1
the British government. He became a supplier of goods to the British army and India Railways. His correspondence with Field Marshal Sir Claude Auchinleck is preserved in the letter archives of the University of Manchester library. These letters reveal the close ties he had with the British Government and how they facilitated the development of his business. The reason for his involvement in the Pakistan movement and other political decisions can be found these letters. In addition to personal and business matters, Auchinleck and Syed Maratib Ali discuss political issues such as the victory of the Allied Forces, the progress of Pakistan as a newly-independent political entity, the assassination of Prime Minister Liaqat Ali Khan and the Suez Crisis of 1956. Thirty-seven of the letters date from the period 1943 to 1947\(^2\), when Auchinleck was Commander-in-Chief of India. He had nine children and among them the eighth born Syed Babar Ali took charge of the family business and oversaw its massive expansion. Two of his sons, Syed Babar Ali and Syed Amjad Ali, served as Finance Ministers. Two of his grandchildren, Fakhar Imam and Abida Hussain, have served as federal ministers in different regimes. One other son, Syed Wajid Ali, was appointed as an ambassador of Pakistan to Washington D.C. An eminent entrepreneur, businessman, industrialist and philanthropist, Syed Babar Ali was born in 1926 to this illustrious family. He studied at the University of Michigan in 1947, the year Pakistan became a state. Syed Babar Ali, following family tradition, cultivated close ties with international elites and governments. When his wedding took place in the Pakistani Embassy in Washington D.C. in 1954, Richard Nixon, who later became President of United States in 1969, attended it. Syed Babar Ali is not only famous in the business fraternity of Pakistan as a top corporate elite, but is also an active philanthropist. He served as Finance Minister in the caretaker government of Moenuddin Ahmad

\(^2\)http://archives.li.man.ac.uk/ead/search?operation=full&rsid=36&firstrec=1&numreq=20&highlight=1&hitposition=14#rightcol
Qureshi,\textsuperscript{83} from July 23, 1993 to October 19, 1993. Though the Packages Group is a market leader in the paper industry, it has its roots in all the major industries of Pakistan such as dairy milk and food production, consumer products and education. As an entrepreneur and an industrialist, Syed Babar Ali envisioned and set up Packages Ltd. (Pakistan’s largest paper & board mill), Milpak Ltd. (now Nestle Pakistan Ltd.), and the largest food processing company in Pakistan, Tetra Pak Pakistan Ltd., IGI Insurance Company Ltd., Tri-Pack Films Ltd. and IGIG Investment Bank (see Figure 6.4). He is the Chairman of Sanofi-Aventis Pakistan Ltd., Siemens Pakistan Engineering Company Ltd. and Coca Cola Beverages Pakistan Ltd. He believes in the joint-venture philosophy and most of his businesses are of this nature with major multinationals. Packages Group had a controlling stake in Lever Brothers from 1978 to 2002.

\[\text{FIGURE 6.4: Company Structure & Shareholding Pattern of Packages Group}\]

\textsuperscript{83} Prime Minister Qureshi was infamously known as a US plant, since he had served at the World Bank.
The shareholding pattern of the Packages Group indicates that family members hold a majority stake in each public listed company. Currently, the Packages Group is involved in the paper industry, in which it holds the position of being a market leader, along with food and beverages, pharmaceuticals, and insurance. In this study, ten public listed companies of the Packages Group were analysed. A brief of all companies is presented in Appendix (B). The public listed companies studied in this analysis are in Table 6.10.

**TABLE 6.10: Public Listed Companies & Year of association with Packages Group**

<table>
<thead>
<tr>
<th>No</th>
<th>Name of Firms</th>
<th>Years</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mitchell’s Fruit Farms Limited</td>
<td>1990</td>
<td>Food &amp; beverages</td>
</tr>
<tr>
<td>2</td>
<td>Aventis Pharma</td>
<td>1991</td>
<td>Pharmaceuticals</td>
</tr>
<tr>
<td>3</td>
<td>Hoechst Marion Pak</td>
<td>1978</td>
<td>Pharmaceuticals</td>
</tr>
<tr>
<td>4</td>
<td>Int. General Insurance Company (IGI)</td>
<td>1981</td>
<td>Insurance</td>
</tr>
<tr>
<td>5</td>
<td>Tripack Limited</td>
<td>1995</td>
<td>Food &amp; Beverages</td>
</tr>
<tr>
<td>6</td>
<td>Nestle</td>
<td>1980</td>
<td>Food &amp; Beverages</td>
</tr>
<tr>
<td>7</td>
<td>Packages LTD</td>
<td>1961</td>
<td>Paper</td>
</tr>
<tr>
<td>8</td>
<td>Siemens</td>
<td>2000</td>
<td>Technology</td>
</tr>
<tr>
<td>9</td>
<td>Unilever</td>
<td>1978</td>
<td>food &amp; beverages</td>
</tr>
</tbody>
</table>

The ANOVA test proves that there is a significant variance in the means of the total ratios of the listed companies of the Packages Group. This allows for the Duncan test to be done to grade the regimes, from highest to lowest as per performance. The results of the ANOVA test are presented in Table 6.11.

**TABLE 6.11: One-Way ANOVA Results of Ratios of Packages Group**

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Packages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>Between Groups</td>
<td>1014.536</td>
<td>7</td>
<td>144.934</td>
<td>18.735</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>417.746</td>
<td>54</td>
<td>7.736</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1432.283</td>
<td>61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Packages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>Between Groups</td>
<td>9716.213</td>
<td>7</td>
<td>1388.030</td>
<td>36.701</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>2042.288</td>
<td>54</td>
<td>37.820</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>11758.501</td>
<td>61</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Between Groups</td>
<td>27.401</td>
<td>7</td>
<td>3.914</td>
<td>28.887</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>7.317</td>
<td>54</td>
<td>.136</td>
<td></td>
</tr>
</tbody>
</table>

<p>| Classification of Packages Group Performance using Duncan Test under different Regimes |</p>
<table>
<thead>
<tr>
<th>Regimes</th>
<th>N</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>2MR</td>
<td>3</td>
<td>3.106</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1MR</td>
<td>11</td>
<td>3.504</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1DR</td>
<td>6</td>
<td>4.818</td>
<td>4.81</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1DT</td>
<td>5</td>
<td>7.05</td>
<td>7.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3MR</td>
<td>11</td>
<td></td>
<td></td>
<td>8.23</td>
<td></td>
</tr>
<tr>
<td>MD</td>
<td>10</td>
<td></td>
<td></td>
<td>8.97</td>
<td></td>
</tr>
<tr>
<td>4MR</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td>13.76</td>
</tr>
<tr>
<td>Sig.</td>
<td>.303</td>
<td>.155</td>
<td>.246</td>
<td>1.0</td>
<td></td>
</tr>
</tbody>
</table>

Financial:

The ROA of Packages Group has never been more than 10%, except for Mitchell’s Fruit Farms Limited, since its incorporation. The Packages Group acquired most of its public limited companies after the nationalization policy was reversed.

Statistical:

The regime under which the Group registered its highest mean value was during the 4MR, with 13.76; its least was during the 1MR and 2MR, with 3.1062. The maximum variation in mean values of the ROA was 3.1062 to 13.76. Most of the time, its average returns were near 10%.

Reason: As the family members are affiliated with a political party, the Group earned more during civilian regimes and with time secured a stable position under military regimes.

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84 Mitchell’s Fruit Farms Limited Fruit Farm was the oldest foreign-owned company in Pakistan. It was established in 1933 by Francis Mitchell’s Fruit Farms Limited. After the partition, 75 percent of its assets remained in India. The enterprise in Pakistan was renamed Mitchells Pakistan Ltd. His son Andrew started selling shares in this family-owned business in 1957; by 1990 almost all the shares had been sold.

85 The family has close links with the Pakistan People’s Party (PPP).
Financial:

The ROE values of companies of Packages Group are presenting good returns to shareholders in all years except few years for Hoehsht and Tripack but are minimuin rate. The highest return were attained for Unilever Pakistan in 2000. The multinational company later had changed it’s named from lever Brother to Unilver Pakistan and Manoo group, which is another big business group of Pakistan, availed its major shares. Therefore, in this analysis, Unilever data till 2001 is been added. On average it is obvious from figure that all companies had started attaining good returns from MD till date.

Statistical:

The mean value of ROE for Packages Group was highest during the 4MR, with 39.527, a fairly good return for any shareholder; the least was during the 1MR and 2MR, with 4.176. The variation in returns is vast under different regimes, from 4.176 to 39.527. However, this growth in returns occurred uninterrupted during different regimes. This suggests that the group’s business decisions had continuously provided increasing returns to the shareholders.

Reason:

Packages had always established a joint ventures with multinationals, which had a strong branding and provides shareholders a sense of confidence on their shares.
Financial:

Less than 5% in all years. This indicates that the Group has not exceeded the allowed range of debt-to-equity by the central bank. Most of its companies expanded between 2000 and 2010.

Statistical:

The regime with the highest mean value as per DTE was 1DR, with 1.825; the least was 1MR, with a mean value of 0.2054. The mean value of DTE of the group varied between 0.2054 and 1.825. This is fairly acceptable as it shows that in the financial mix the ratio of debt to equity was less than double.

Reason:

This group is politically affiliated to the PPP, and it was the ruling party during the 1DR. But group got expanded in MD regime as most of its companies were established during this regime. But it’s been observed that not even for a single year for any company the DTE went above 5 times.

<table>
<thead>
<tr>
<th>items/years</th>
<th>PACKAGE S</th>
<th>ROA</th>
<th>ROE</th>
<th>DTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1MR</td>
<td>4.818</td>
<td>5.742</td>
<td>0.282</td>
<td></td>
</tr>
<tr>
<td>2MR</td>
<td>3.106</td>
<td>7.271</td>
<td>1.168</td>
<td></td>
</tr>
<tr>
<td>1DR</td>
<td>4.819</td>
<td>15.81</td>
<td>1.826</td>
<td></td>
</tr>
<tr>
<td>3MR</td>
<td>8.232</td>
<td>18.79</td>
<td>1.131</td>
<td></td>
</tr>
<tr>
<td>MD</td>
<td>8.978</td>
<td>26.98</td>
<td>1.777</td>
<td></td>
</tr>
<tr>
<td>4MR</td>
<td>12.59</td>
<td>34.08</td>
<td>1.453</td>
<td></td>
</tr>
<tr>
<td>1DT</td>
<td>4.732</td>
<td>10.38</td>
<td>1.148</td>
<td></td>
</tr>
</tbody>
</table>

Financial:

The average of all ratios indicates the maximum growth during the 4MR with 12.59% of average ROA of the regime and ROE with 34.08% returns to the shareholders.

6.5 Fauji Foundation Group

The Fauji\textsuperscript{86} Foundation was established in 1954, under the charitable Endowment Act 1890, for the welfare of ex-servicemen. It was the first organisation of its kind in Pakistan, meant to cater to the welfare of military personnel from all the three services (army, air

\textsuperscript{86} Fauji means Soldier.
force and navy). As in the Turkish model, the military sought initial funding for this institution. The Rs. 18 million (US$300,000) capital investment was provided by the Royal British military in 1947 as Pakistan’s share of the post-war Services Reconstruction Fund for reinvestment purposes. The fund was established by the British to provide financial help and welfare benefits for British war veterans. The money was used to establish industrial firms in the western wing of the country. Today, FF is one of the largest conglomerates in the country. FF is also a major taxpayer. However, until the beginning of the 1970s, it was exempt from paying taxes. FF has investments in various sectors with high consumer demand such as tobacco, sugar and textile production.

FF started its industrial operations in both wings of the country. The industrial operations were primarily in consumer-oriented, non-tradable commodities like rice, flour, jute and textiles. In 1982, it had assets with an estimated worth of Rs. 2060 million (US$35.52 million), in the shape of 29 industrial companies. Most of the heavy manufacturing industrial projects were categorized as subsidiaries, which means that these were shareholding ventures. Out of 25 projects, only four companies, Fauji Fertilizer, Fauji Cement, Mari Gas and Fauji Fertilizer bin Qasim, are listed on the stock exchange. FFs’ shareholding in its associated companies has a market value of US$661 million, while the companies represent 3.3 percent of the total market capitalization of the Karachi Stock Exchange. The Group’s total worth of net assets in 2012 was Rs. 216,045 million.

The Group currently employs 12,411 employees in various sectors including fertilizer, cement, natural gas, power generation, oil terminal operations, financial services, healthcare and education; the foundation is run by a governing board that is controlled by the army. The strategic control of the organisation is in the hands of the Ministry of Defence (MOD) and the military establishment. The committee of administration is the
apex body that gives overall direction. The chairman of this committee is the Secretary of Defence.

From the operational perspective, FF is decentralised. Its four major divisions are fully-owned projects, associated companies, affiliated projects and the investment board. Siddiq (2007) proposed two major reasons for the establishment of military businesses and internal economic system controlled by this institution: the first is the development of the combination of the paradigm where the military was a strategic national saviour as well as an organ of national development. Considering the military’s ability to determine its own direction and to contribute to national development, this organisation took upon itself the responsibility of contributing to the authoritarian economic modernization of Pakistan. The second reason relates to Locke’s anarchic paradigm, in which economic activities are driven by the greed of individual personnel. This greed is linked to the organisation’s power and authority. Pakistan’s military business case often reflects an overlapping of institutional self-interest and the anarchic paradigm.

As FF is a military-owned conglomerate, the companies it has a stake in are owned by its parent company. FF is active in many diversified industries, but its public listed companies are in fertilizers, cement, finance and oil and gas. Foreign investors hold a nominal share of 7 percent in Fauji Fertilizers. Major shareholders include institutional investor and associated companies. In Fauji Cement, associated companies dominate the list of shareholders, having 49 percent of the total share while institutional investors own 32 percent. Similarly in Askari Bank, more than 50 percent of the shares are held by associated firms.
FIGURE 6.5: Company Structure & Shareholding Pattern of Fauji Foundation Group

Seven public listed companies of the FF Group were analyzed. The names of these companies are presented in Table 6.13. Brief details of these companies are provided in Appendix (B).

TABLE 6.13: Public Listed Companies & Year of Association with Fauji Foundation Group

<table>
<thead>
<tr>
<th>No</th>
<th>Firm Name</th>
<th>Year of Association</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>MGCL</td>
<td>1986</td>
<td>Oil &amp; Gas</td>
</tr>
<tr>
<td>2</td>
<td>FFC</td>
<td>2001</td>
<td>Fertilizers</td>
</tr>
<tr>
<td>3</td>
<td>Fauji Fertilizer Bin Qasim Ltd.</td>
<td>1995</td>
<td>Fertilizers</td>
</tr>
<tr>
<td>4</td>
<td>Fauji Cement Company Ltd.</td>
<td>1995</td>
<td>Cement</td>
</tr>
<tr>
<td>5</td>
<td>Askari Leasing Limited</td>
<td>2001</td>
<td>Financial</td>
</tr>
<tr>
<td>6</td>
<td>Askari General Insurance</td>
<td>2001</td>
<td>Financial</td>
</tr>
<tr>
<td>7</td>
<td>Askari Bank</td>
<td>1991</td>
<td>Bank</td>
</tr>
</tbody>
</table>

The ANOVA test indicates a significant variance in the means of the ROA and DTE of these listed companies. This permits the need for a Duncan Test to grade the regimes from highest to lowest according to company performance. The results of the ANOVA test are presented in Table 6.14. The significant value for ROE is above 0.05 percent which indicates that the performance of the Group in more than two regimes was the same. The Duncan Test was thus not applied to ROE values to compare the means.
TABLE 6.14: One-Way ANOVA Results of Ratios of Fauji Foundation Group

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FFG ROA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>281.778</td>
<td>7</td>
<td>40.254</td>
<td>4.892</td>
<td>.000</td>
</tr>
<tr>
<td>Within Groups</td>
<td>444.367</td>
<td>54</td>
<td>8.229</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>726.145</td>
<td>61</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>FFG ROE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>11233.773</td>
<td>7</td>
<td>1604.825</td>
<td>.865</td>
<td>.540</td>
</tr>
<tr>
<td>Within Groups</td>
<td>100216.645</td>
<td>54</td>
<td>1855.864</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>111450.418</td>
<td>61</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>FFG DTE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>396.243</td>
<td>7</td>
<td>56.606</td>
<td>7.834</td>
<td>.000</td>
</tr>
</tbody>
</table>

The graph shows that the flow of ROA and DTE was relatively stable under all regimes; the exception was the ROE ratio. This fall was massive in one particular year and reduced the average ROE. To measure it in more detail, the actual average values of the Group under all regimes are given in Table 6.15 (last column).

Table 6.15 indicates that the average ROA of the Group was 6.5 percent and the ROE was 19 percent with a 1.5 percent DTE during the 3MR of General Zia. This indicates that the Group was not dependent on loans in its financial mix and yielded good returns due to its sales revenue. However, the regime in which the FF Group registered the least ROA was the 4MR, from 1999 to 2007, with 3.296 percent. Surprisingly, its DTE ratio increased to 6.908. The Group had yielded its least ROA at a time when it was registered its highest debts, most probably in the shape of bank loans, under the same regime. These points lead us to reason that special favours were granted to the Group by that regime.
TABLE 6.15: Financial & Statistical Analysis of Fauji Foundation Group

Graphical Presentation of Ratios of Listed Companies of Fauji Foundation Group

<table>
<thead>
<tr>
<th>Classification of Fauji Foundation Group Performance using Duncan Test under different Regimes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regime</strong></td>
</tr>
<tr>
<td>-------------</td>
</tr>
<tr>
<td>3MR</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>4MR</td>
</tr>
<tr>
<td>MD</td>
</tr>
<tr>
<td>1DT</td>
</tr>
<tr>
<td>Sig.</td>
</tr>
</tbody>
</table>

Financial:

As FF Group is among the new groups established since the 1980s, only four regimes are covered. The Group was able to achieve a strong ROA from the start. Mari Gas, the oldest firm in the Group, maintained a smooth ROA, with an average 8%.

Statistical:

The Duncan Test results indicate the Group registered its highest ROA during the 1DT, with 7.1102; the least was during the 3MR, with 2.3540, when the group entered the business world. The variation in means was between 2.3540 to 7.1102. This indicates that the Group maintained a steady performance under all regimes, with a continuous increase in returns. Though Askari Bank shows a negative ROA, it did not affect the overall group performance.

Reason:

Since it is a conglomerate owned by the military, the performance of all its companies has always been good.

Financial:

The DTE also shows the same peak as Bin Qasim Fertilizers in 2001 as the liabilities were highest during this regime.
**Statistical:**

The best performance as per the Duncan Test was during the 4MR; the worst during the 3MR. The variation among the means was between 0.542 and 6.907.

**Reason:**

Being a military-owned conglomerate, FF Group maintained a steady performance under all regimes. The only one big variation was seen is 2001 during another military regime when one company was shut down, indicating heavy equity loss. The funds were reinvested it in a new project, Bin Qasim Fertilizers.

<table>
<thead>
<tr>
<th>Items/years</th>
<th>FFG</th>
<th>ROA</th>
<th>ROE</th>
<th>DTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>3MR</td>
<td>6.473</td>
<td>19.29</td>
<td>1.492</td>
<td></td>
</tr>
<tr>
<td>MD</td>
<td>3.641</td>
<td>13.35</td>
<td>2.966</td>
<td></td>
</tr>
<tr>
<td>4MR</td>
<td>3.296</td>
<td>-12.35</td>
<td>6.908</td>
<td></td>
</tr>
<tr>
<td>1DT</td>
<td>7.11</td>
<td>42.7</td>
<td>4.788</td>
<td></td>
</tr>
</tbody>
</table>

**Financial:**

Taking the average yearly ratios of each regime, it was during the 4MR that the Group yielded the highest DTE; its ROA was best during the 1DT.
6.6 Jahangir Siddiqui Group

Jahangir Siddiqui & Co. Ltd. (JSCL) was incorporated on May 04, 1991 as successor to the equity and fixed income securities and corporate finance business established by Jahangir Siddiqui. JSCL was the first securities company in Pakistan with a Wall Street pedigree by virtue of its former joint venture with Bear Stearns. JSCL was the first corporate member of the Karachi Stock Exchange. It was listed on the Karachi, Lahore and Islamabad stock exchanges on 10 August 1993.

Jahangir Siddiqui is a true example of a business tycoon turned from ashes. He was a son of an ordinary coffee shop owner. But with his interest and insight of share market, he was able to make money in just couple of years which big investors couldn’t make in their lives.

Jahangir Siddiqui is currently sitting on a multi-billion rupees empire through various public limited companies, in which he, his family members or his companies are majority and controlling shareholders. Among these are the flagship, JSCL and JS Bank Limited. Both these companies have a combined balance sheet of Rs. 98 billion, as of December 2012. Jahangir Siddiqui & Co was also the first securities brokerage with a Wall Street stamp. This group was selected as a case study as it is a good example of growth of a business group based on political contacts and networking with power elites.

---

87 “In 1967, He borrowed money from his father which he gave to him after selling his coffee shop. With that money he bought shares in Habib Bank for Rs.16 per share. He later sold these at a profit: some at Rs.22, others at Rs.23 and some at Rs.27 per share. He also bought shares at Rs. 28 each in Habib Insurance and sold them for Rs.45 and Rs.50 and received cash dividends of 80%. This was big money for an articled clerk and the thrill was intoxicating. In his first year at playing the stock market, Jahangir Siddiqui, made around Rs.200,000. In those days, the salary of a director of a big multinational was around Rs.2, 500” Source: http://www.pak-times.com/2009/05/14/a-self-made-jahangir-siddiqui-in-the-beginning/comment-page-1/

The group includes five businesses: JS Industrial, JS Infocom, JS Property, JS Resources and JS Transportation. The JS Group has often been in the news over the last decade, sometimes due to its sudden and unaccountable massive growth in the financial sector and at other times due to the allegations by national and international newspapers of illegal stock market manipulation in 2007. JS Group is well known for its expertise in price manipulation and wash trade. In the case of the PICTL, it shows that JS Group had sold shares to Bank Julious Baer, which is allegedly works as the front manipulator for Jahangir Siddiqui himself. On April 1, 2013, following complaints by shareholders, the Securities and Exchange Commission of Pakistan (SECP) took action against JSCL for awarding over US$4.3 million to the son of Jahangir Siddiqui, i.e. Ali Jahangir Siddiqui, a non-executive director, presumably the fee for his services as the head of the advisory team. The Federal Investigation Agency (FIA) registered over a dozen cases against Sprint Energy, a company owned by the JS Group. On April 28, 2015, NAB decided and authorised inquiry into inside trading of Azgard Nine shares and corrupt practices against Mahwash and Jahangir Siddiqui Foundation.

The group has shown tremendous expansion of its business in all fields. The JS Group has formed partnerships with international organisations and brands to develop new businesses in Pakistan. Examples of JS Group partnerships include those with firms such as Allianz (Insurance), Dubai Bank (Islamic banking), Global Investment House

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91 Business Recorder, April 17, 2013


(securities brokerage), International Finance Corporation (asset management) and Ulker (Food).

FIGURE 6.6: Company Structure & Shareholding Pattern of Jahangir Siddiqui Group

The pattern of shareholding of the JS Group indicates that ownership is concentrated in the hands of the family. Since it is grouped in the “New Rich” category, most of the companies of the JS Group have not been able to secure a position as public listed companies, as has been the case for the rest of the groups discussed. However, nine public listed companies of JS Group were analysed for this study. The brief details of these groups are presented in Appendix (B). The companies analyzed in detail are listed in Table 6.16.

TABLE 6.16: Public Listed Companies & Year of Association with Jahangir Siddiqui Group

<table>
<thead>
<tr>
<th>No</th>
<th>Name of Firm</th>
<th>Year</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CALCROP</td>
<td>1991</td>
<td>Financial</td>
</tr>
<tr>
<td>2</td>
<td>Mudarba Al Mali</td>
<td>1989</td>
<td>Financial</td>
</tr>
<tr>
<td>3</td>
<td>Jahangir Siddiqui &amp; Co</td>
<td>1992</td>
<td>Financial</td>
</tr>
<tr>
<td>4</td>
<td>JS Bank</td>
<td>2007</td>
<td>Bank</td>
</tr>
<tr>
<td>5</td>
<td>BankIslami Pakistan Limited</td>
<td>2010</td>
<td>Bank</td>
</tr>
<tr>
<td>6</td>
<td>JS Global Capital Limited</td>
<td>2007</td>
<td>Financial</td>
</tr>
<tr>
<td>7</td>
<td>JS Growth Fund</td>
<td>2008</td>
<td>Financial</td>
</tr>
<tr>
<td>8</td>
<td>JS Investments Limited</td>
<td>2007</td>
<td>Financial</td>
</tr>
<tr>
<td>9</td>
<td>JS Value Fund Limited</td>
<td>1994</td>
<td>Financial</td>
</tr>
</tbody>
</table>
Table 6.17 outlines the One-way ANOVA results of the JS Group. It reveals that the mean of the performance of the Group under each regime shows a variance in all three ratios with the P value of all three ratios less than 0.05 percent. And allows us to apply Duncan test on the yearly values of all ratios and grade them from highest to lowest as per their mean value.

**TABLE 6.17: One-Way ANOVA Results of Ratios of Jahangir Siddiqui Group**

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>JS ROA</td>
<td>Between Groups</td>
<td>679.448</td>
<td>7</td>
<td>97.064</td>
<td>3.020</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>1735.656</td>
<td>54</td>
<td>32.142</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>2415.104</td>
<td>61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JS ROE</td>
<td>Between Groups</td>
<td>2212.022</td>
<td>7</td>
<td>316.003</td>
<td>2.111</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>8082.920</td>
<td>54</td>
<td>149.684</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>10294.94</td>
<td>61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JS DTE</td>
<td>Between Groups</td>
<td>9.266</td>
<td>7</td>
<td>1.324</td>
<td>10.590</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>6.750</td>
<td>54</td>
<td>.125</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>16.016</td>
<td>61</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

To analyse the financial ratios of all firms individually, Table 6.18 drew a graphical presentation of all companies and along it the collective JS group’s performance under each regime is graded from highest to lowest.
TABLE 6.18: Financial & Statistical Analysis of Jahangir Siddiqui Group

Graphical Presentation of Ratios of Listed Companies of JS Group

Classification of JS Group Performance using Duncan Test under different Regimes

<table>
<thead>
<tr>
<th>JSROA</th>
<th>Duncan(^{a,b})</th>
<th>Regimes</th>
<th>N</th>
<th>Subset for alpha = 0.05</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>1DT</td>
<td>5</td>
<td>1.3677</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MD</td>
<td>10</td>
<td>6.3444</td>
<td>6.3444</td>
<td></td>
</tr>
<tr>
<td>4MR</td>
<td>9</td>
<td>8.1740</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>.086</td>
<td>.564</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Financial:

JS Group is the youngest in all six groups discussed. The ROA of the companies are good from the start, showing a steady performance. The peak is seen in two companies, in the years 2008 and 2007. This can be due to a change in government in 2008 the company’s strategic decisions. However, the companies regained returns the following year.

Statistical:

According to the Duncan Test, the regime under which the Group registered the highest pair comparison mean variance was the 4MR and the least was during the 1DT, with the variation in the means from 1.3677 to 8.1740.

<table>
<thead>
<tr>
<th>JSROE</th>
<th>Duncan(^{a,b})</th>
<th>Regimes</th>
<th>N</th>
<th>Subset for alpha = 0.05</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>1DT</td>
<td>5</td>
<td>-3.4632</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MD</td>
<td>10</td>
<td>8.4683</td>
<td>8.4683</td>
<td></td>
</tr>
<tr>
<td>4MR</td>
<td>9</td>
<td>15.3296</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>.136</td>
<td>.054</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Financial:

The ROE shows as average of 15% over the years. Only in year 2009, JS bank showed a massive decrease in its ROE of 601% due to decrease in its equity from 1923.77 million Rs in 2008 to 286.326 million Rs. Year 2009 was the epochal year in JS financial strategy as Group faced huge loss I profit after tax in almost all of its companies.
Statistical:

The mean value of ROE of JS group was highest in 4MR while the ROE was lowest under the 1DT because of JS investment bank’s negative ROE of 601% in 2009.

Reason:

In year 2009, JS group had balanced its accounts in almost all companies against heads like Provision against non-performing loans and advances, Provision / (Reversal) for diminution in the value of investments which effected its profit after tax for all companies and the ratios of returns on assets and equity give negative values. But such adjustment were made to strengthen the companies in future transactions.

Financial:

The DTE of the group shows steady growth over the years. After 2007, under the democratic regime led by Asif Zardari, its DTE increased.

Statistical:

As per results of Duncan test, the highest mean value of DTE for group is in 1DT with 1.309 and lowest is in MD with 0.404 best regime for the group as per DTE was 1DT and the poorest performance was during the MD period.
Financial:

Taking the averages of all regimes it is obvious the as per ROA, the Group registered highest returns on assets during the MD period but its DTE was highest during the 1DT when its ROA showed a negative return. This indicates that personal contacts with political elites helped the Group secure favors to sustain itself.

6.7 Habib Group

Habib Group is the only conglomerate in Pakistan which was well-established in united India. But it is can also be considered as the only big group which is least visible in political enclaves. Although Habib Group was reported to own at least 100 companies throughout the world but the total number is a mystery because of its diversified businesses. Due to it, it was graded at thirteenth place in 1970 as per industrial and manufacturing assets (136.2 million Rs.) but Herald noted it at number one in 1990. This perhaps is also the reason the company has never been seen as a key actor in the power game, though it still sustains its position as a leading enterprise. The financial strength of Habib can be gauged from the fact that Mohammad Ali Habib gave a cheque of Rs. 80 million to Jinnah in 1948 at the time when the Pakistan government was penniless. The government was broke owing to a delay in the transfer of Pakistan’s share of Rs. 750 million by the Reserve Bank of India.

The Group had offices in Europe in 1912. The flagship company of the group is Habib Bank, which was incorporated in 1941 and became famous, particularly among the middle class by being able to open 34 branches in five years in different provinces of united India. The Group was a family business, commencing operations as a trading company in 1841 named Khoja Mithabhai Nathoo. Later, Esmail Ali a member of the

93 See Table 1.1
Khoja family established a small utensils factory in Bombay. Esmail’s son, Habib Esmail, was the person who transformed the family business when he joined it in 1891. Habib entered in the industry of merchant banking and in 1921 changed the family business name to “Habib & Sons”. His four sons, Ahmed Habib, Dawood Habib, Mohammed Ali Habib and Ghulam Ali Habib, joined him in the business and expanded it enormously. Currently, the Habib Group has companies in various industries such as automobiles, building materials, packaging, plastic, wholesale, tractors and financial services.

Fifteen public listed companies of the Habib Group were analysed. The brief details of these groups are presented in Appendix (B). The companies’ analysed in detail are listed in Table 6.19.

**TABLE 6.19: Public Listed Companies & Year of Association with Habib Group**

<table>
<thead>
<tr>
<th>No</th>
<th>Name of Firm</th>
<th>Year</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agri-Autos</td>
<td>2001</td>
<td>Automobiles</td>
</tr>
<tr>
<td>2</td>
<td>Al Ghazi Tractor</td>
<td>1985</td>
<td>Automobiles</td>
</tr>
<tr>
<td>3</td>
<td>Baluchistan Wheels</td>
<td>1995</td>
<td>Automobiles</td>
</tr>
<tr>
<td>4</td>
<td>Bank Al Habib</td>
<td>1998</td>
<td>Bank</td>
</tr>
<tr>
<td>5</td>
<td>Baluchistan Particle Board Ltd</td>
<td>1980</td>
<td>Paper</td>
</tr>
<tr>
<td>6</td>
<td>Dynea Pakistan</td>
<td>2000</td>
<td>Chemicals</td>
</tr>
<tr>
<td>7</td>
<td>DYNO</td>
<td>1983</td>
<td>Chemicals</td>
</tr>
<tr>
<td>8</td>
<td>Habib ADM Ltd</td>
<td>2007</td>
<td>Rice</td>
</tr>
<tr>
<td>9</td>
<td>Habib-ADM Limited</td>
<td>1981</td>
<td>Rice</td>
</tr>
<tr>
<td>10</td>
<td>Habib Insurance Company Ltd</td>
<td>1941</td>
<td>Insurance</td>
</tr>
<tr>
<td>12</td>
<td>Habib Sugar</td>
<td>1962</td>
<td>Sugar</td>
</tr>
<tr>
<td>13</td>
<td>Indus Motor</td>
<td>1991</td>
<td>Automobiles</td>
</tr>
<tr>
<td>14</td>
<td>Shabbir Tiles &amp; Cer. Ltd</td>
<td>1999</td>
<td>Tiles</td>
</tr>
<tr>
<td>15</td>
<td>Thal Mills Ltd</td>
<td>1967</td>
<td>Jute</td>
</tr>
</tbody>
</table>

The shareholding pattern of Habib Group reveals that, in most of the companies, foreign shareholders are dominant investors, for example Thal Mills Ltd., Ari Autos and Indus
Motors. The foreign investors control more than 40 percent of shares in these enterprises.

In Dyno Ltd., Habib Metropolitan Bank and Habib Insurance, foreign investors also have a sizeable number of shares. The other major shareholders are institutional investors. For example, in Bank Al Habib, institutional investors hold 32 percent of total shares.
Table 6.20 shows the One-way ANOVA results of the Habib Group. It reveals that the mean of the performance of the group under each regime registered a variance in all three ratios. The P-value of all three ratios less than 0.05 percent.

**TABLE 6.20: One-way ANOVA Results of Ratios of Habib Group**

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ROA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>5207.009</td>
<td>7</td>
<td>743.858</td>
<td>12.224</td>
<td>.000</td>
</tr>
<tr>
<td>Within Groups</td>
<td>3529.575</td>
<td>58</td>
<td>60.855</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8736.584</td>
<td>65</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ROE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>1919.006</td>
<td>7</td>
<td>274.144</td>
<td>3.958</td>
<td>.001</td>
</tr>
<tr>
<td>Within Groups</td>
<td>4017.091</td>
<td>58</td>
<td>69.260</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>5936.097</td>
<td>65</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>DTE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>372.378</td>
<td>7</td>
<td>53.197</td>
<td>27.480</td>
<td>.000</td>
</tr>
<tr>
<td>Within Groups</td>
<td>112.278</td>
<td>58</td>
<td>1.936</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>484.656</td>
<td>65</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TABLE 6.21: Financial & Statistical Analysis of Habib Group**

Graphical Presentation of Ratios of Listed Companies of Habib Group

<p>| Classification of Habib Group Performance using Duncan Test under Different Regimes |
|---------------------------------|---------------------------------|
| <strong>ROA</strong>                         | <strong>Duncan</strong>&lt;sup&gt;a,b&lt;/sup&gt;       |</p>
<table>
<thead>
<tr>
<th>Regime s</th>
<th>N</th>
<th>Subset for alpha = 0.05</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5</td>
<td>2.7421</td>
</tr>
<tr>
<td>2MR</td>
<td>3</td>
<td>2.8619</td>
</tr>
<tr>
<td>4MR</td>
<td>9</td>
<td>3.3423</td>
</tr>
<tr>
<td>MD</td>
<td>10</td>
<td>4.0641</td>
</tr>
<tr>
<td>3MR</td>
<td>11</td>
<td>5.3640</td>
</tr>
<tr>
<td>1DR</td>
<td>6</td>
<td>5.8787</td>
</tr>
<tr>
<td>1MR</td>
<td>11</td>
<td>15.961</td>
</tr>
<tr>
<td>IBR</td>
<td>11</td>
<td>27.348</td>
</tr>
</tbody>
</table>
Financial:

Habib Insurance which is the flagship company of the Group enjoyed huge returns till 1970. Its return rate subsequently decreased, but never went below the acceptable range. On average, the public listed companies of the Group have always been able to register ROAs of above 10%. Although in the last decade, the average returns of all companies have decreased, the Group still registers higher returns than many competitors.

Statistical:

The Duncan Test results indicate that its highest mean value of ROA with 27.348 was under the 1BR regime. Under the last regime, 1DT, the Group registered its lowest ROA of 2.7421. But, when analyzing closely the average mean values of all regimes, only in the first regimes, i.e. 1BR and 1MR, did the group not attain values above 10%. Although the average returns had decreased, the massive returns they registered in the early twenty years had helped them to become a market leader, a position the Group still holds.

<table>
<thead>
<tr>
<th>ROE</th>
<th>Duncan^a,b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regimes</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>2MR</td>
<td>3</td>
</tr>
<tr>
<td>1BR</td>
<td>11</td>
</tr>
<tr>
<td>MD</td>
<td>10</td>
</tr>
<tr>
<td>1DR</td>
<td>6</td>
</tr>
<tr>
<td>1MR</td>
<td>11</td>
</tr>
<tr>
<td>1DT</td>
<td>5</td>
</tr>
<tr>
<td>3MR</td>
<td>11</td>
</tr>
<tr>
<td>4MR</td>
<td>9</td>
</tr>
<tr>
<td>Sig.</td>
<td>.100</td>
</tr>
</tbody>
</table>

Financial:

As in ROA, the returns to shares for the Group were generated most by Habib Insurance. It was highest in 1983, when the profit-after-tax of the firm almost doubled from the previous year. Other than this, the returns to shareholders of the Habib Group have been commendable.

Statistical:

The Duncan Test grades the mean value of regime 4MR as the highest, compared to the others, with a score of 25.3025. The lowest regime ranked, as per mean of ROE, was 2MR. But the average mean value of all regimes was above 15%, which is relatively good returns for any investor.
Financial:

The DTE values of all companies in the Group have remained below 2.00 times, except for a few years. On one occasion, in 1992, AL Ghazi Tractors reached 15.67 times. Although all other business groups were struggling hard to attain good returns in 3MR but Habib Group was expanding under the 3MR of Zia regime. Later, with the inclusion of Habib Metropolitan Bank, a higher DTE was registered. As discussed, the DTE of banks are always high and that is a positive sign for the bank’s expansion.

Statistical:

The Duncan Test results indicate that the highest mean value of DTE for Habib Group was during the 1DT regime. It can be derived from these results that the Group was strong enough till the year 2000 and its reliability on debts/loans was low, but with time it increased and will affect the liquidity position of the firms with high DTE. This situation effects negatively the share price of the companies of Habib Group, which was considered always as the safe investment.

Financial:

By taking the averages of all the returns under all the regimes, the regime which provided returns on assets was 1BR. It is obvious from the continuous fall in returns of the Group that the political instability and insecure business environment in Pakistan in the last fifteen years had effected the returns of this well-established business group.
CHAPTER 7: COMPARATIVE ANALYSIS OF BUSINESS GROUPS

This chapter analyses the data of all seven business groups from their date of incorporation until 2012. This is to provide a comprehensive picture of how these business groups performed under different regimes following the power reconfigurations that occurred. This comparative discussion involving these business groups over this period will provide insights into how these entrepreneurs responded to political and economic events. This will show the ability of the groups to deal with each regime change. It also highlights the support that favored business groups received from the government in power, including to deal with economic and political shocks. To maintain the consistency of analysis, the same tools of ratio analyses and Duncan test to provide a comprehensive comparative analysis of all groups.

7.1 Benefits of Political Connections to Business Groups

Business groups use different techniques to develop networks with power elites. A tool well used by corporate elites to create links with power elites is by participating in politics. Another mechanism is intergroup marriages (Bunkanwanicha, Fan & Wiwattanakantang, 2008). Studies focusing on business networking in different countries suggest that groups use marriage as a major medium to create important political and business connections. Marriages have been strategically arranged to help the business group maintain or increase its economic status (Balmori, Voss & Wortman, 1984; De Lomnitz & Lizaur, 1987).94

94 The Rothschild, Wendell and Haniel business dynasties in Europe and the Mitsui zaibatsu in pre-war Japan extended their corporate empire thanks to well-crafted marriages (James, 2006; Landes, 2008).
Among the Pakistani business groups selected as a case study, personal involvement in politics and marriage ties were employed to develop strong alliances with other corporate and political elites. Table 7.1 indicates how corporate elites collude with each other and with political elites to increase their economic strength.

**TABLE 7.1: Networking Forms of Business Groups with Power Elites**

<table>
<thead>
<tr>
<th>Groups</th>
<th>Inter-group Marriages</th>
<th>Directorship Ties</th>
<th>Political Acquaintances</th>
<th>Personal Involvement in Politics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nishat</td>
<td>Sehgol</td>
<td>Sehgol, Packages</td>
<td>Nawaz Sharif (Prime Minister), Khwaja Asif (Defence Minister)</td>
<td>The top management has served in the cabinet</td>
</tr>
<tr>
<td>Kohinnor</td>
<td>Nishat, Dawn, Premier</td>
<td>Nishat, Dawn, Premier</td>
<td>Shaukat Tareen (Finance Minister)</td>
<td>None</td>
</tr>
<tr>
<td>Packages</td>
<td>Bestway, Engro</td>
<td>Nishat, Dawood</td>
<td>Military contacts in early days</td>
<td>Family members have served as ministers and in the national assembly (MNA)</td>
</tr>
<tr>
<td>Dawood</td>
<td>Hashwani, Memon group</td>
<td>Packages, Engro</td>
<td>Former President, General Ayub Khan</td>
<td>Have been members of the MNA and served in numerous state commerce institutes</td>
</tr>
<tr>
<td>JS</td>
<td>Geo</td>
<td>Silk Bank, Summit Bank</td>
<td>Former President Asif Ali Zardari</td>
<td>None</td>
</tr>
<tr>
<td>Habib</td>
<td>Memon Group</td>
<td>Dawood, AKD</td>
<td>Former Governor General M.Ali Jinnah</td>
<td>None</td>
</tr>
</tbody>
</table>

According to Table 7.1, to collude with other corporate elites, the tools most commonly used are marriage ties and interlocking directorships. Naz Mansha, daughter of Yusuf
Saigol of Kohinoor Group, is married to Mian Mohammad Mansha (CEO of Nishat Group). Ambar, daughter of Mahmood Haroon (CEO of Dawn Media Group), is married to Azam Saigol of the Kohinoor Group. One of the three sisters of Mian Mohammad Mansha (Nishat Group) is married to Jehangir Elahi (CEO of Elahi Group) while one of his cousins is married to S.M. Saleem of the United Group. A daughter of Mughis A. Sheikh (Colony Group) is married to Saleem of Crescent Sugar, while another of the Colony ladies is married to Shahzad A. Monnoo (Manoo Group). It is said that the plot on which Monnoo House stands today in Lahore came as a dowry from the Colony group. Zahra, daughter of Aziz and Laila Sarfraz of Premier Group who died on 20 April 1996 in New York, was married to Asif Saigol (Kohinoor Group) and is said to have brought a textile mill as her dowry. Mehrunissa, daughter of Abdul Ghani Dadbhoy who founded the Dadabhoy Group, was married into the Jaffer family. A grandson of Ahmad Dawood (Dawood Group) was married in August 1994 to a daughter of the head of the Dewan Group. Ali Jahangir, son of Jahangir Siddique (JS Group), is married to the granddaughter of the founder of Jang Group (Rehman, 1998). These marriages involving the scions of prominent CEOs contributed to the complex inter-corporate linkages as well as interlocking directorships involving major business groups.

The directors of business groups use interlocking directorships to secure a strong influence on each other’s group. Members of the families of Saigol (Kohinoor Group) and Babar Ali (Packages Group) are directors in each other’s group of companies. The Saigol Group also has such an understanding with the directors of the Nishat Group.

Other than interlocking directorship ties, political ties are crucial for a business group to strengthen their position in the market. They gain multiple favors through such ties. Nasim Saigol, CEO of the Kohinoor Group, attained numerous privatized concessions on
the basis of the loans from the banks which were never repaid. But political contacts helped him deal with this controversy. It was reported that when the National Accountability Bureau (NAB) arrested him on 17 November 1999 for defaulting on these bank loans. The head of this institution, General Amjad, received many calls from nationalized banks stating that they had no outstanding loans against Nasim Sehgal.

Another channel used by business groups to network is by creating personal friendships with political leaders. Ali and Malik (2009) and Rehman (1998) noted that special favors were granted to the Nishat Group during the first tenure of Nawaz Sharif, from 1991 to 1993. The privatization of the Muslim Commercial Bank (MCB) to Mian Mansha and his associates was seen as an act of favoritism by Nawaz Sharif when he was Prime Minister. When the government decided to privatize MCB, Mansha’s bid was the third highest of the five that had been tendered. Even so, Nawaz Sharif’s government chose Mansha. This was then considered, in the history of Pakistan, the biggest benefit a business group had obtained because of its political connections. Nishat Group’s estimated assets in 1990 were about Rs4 billion, but according to the group’s profile in 1993 the value of its assets was approximately Rs10 billion, a phenomenal 250 percentage point increase in just three years.

S.-U. Rehman (2006) notes that he interviewed a politician (name kept hidden) who was once a close aide to Prime Minister Sharif. Now a cabinet minister, this politician had told a group of reporters in the National Assembly cafeteria that “Mian Mansha cannot be forgiven”, minutes after the new assembly had taken oath in February 1997. Mansha and his associates had wholeheartedly supported the first Sharif government as is evident

\[\text{DG Cement was acquired by Kohinoor Textile Mills (KTM), controlled by Tariq Saeed Saigol, by borrowing heavily from a bank. This is evident in the annual report of KTM for 1992 which shows no debt, while the 1993 accounts reveal heavy indebtedness.}\]
from the number of companies incorporated and listed on the Karachi Stock Exchange (KSE) by the Nishat and Chinioti communities. However, what went wrong between the “Lahore Mafia” and second Sharif government is a big mystery.

MCB was sold for Rs. 2,420 million against a down-payment of Rs. 804 million. Within a year of the privatization of MCB, the Privatization Commission sold some of the most profitable cement plants to Mian Mansha, his relatives and business associates. D G Khan Cement was sold to Tariq Saeed Saigol for Rs. 1,799 million, Maple Leaf Cement to Nishat Mills for Rs. 291 million, and Pak Cement and White Cement for Rs. 137 million and Rs. 188 million respectively to Mian Jehangir Elahi and Associates. Dandot Cement was sold to the Chakwal Group for Rs. 254 million. D G Cement was acquired by Kohinoor Textile Mills (KTM), owned by Tariq Saeed Saigol, by borrowing heavily from the bank. This is evident from the annual reports of KTM for 1992 which show no debt, while the 1993 accounts reveal heavy indebtedness.

Nishat Mills had assumed the management of Maple Leaf Cement on January 8, 1992. However, within a few months of the sale of D G Khan Cement by KTM to Mian Mansha, Maple Leaf Cement was sold by Mian Mansha to Tariq Saeed Saigol. KTM had also invested in the privatization of White Cement and Pak Cement but its investment was also divested in March 1992, in favor of Mian Mansha. Dandot Cement was officially sold to the Chakwal Group for Rs. 254 million.

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96 According to one website: “Mian Mansha is politically connected. He went from being broke to super rich after the Nawaz Sharif government gave him D.G. Khan Cement and the MCB (Muslim Commercial Bank). It is believed Nawaz Sharif is a silent partner in MCB which is used to launder his money. Because of MCB bank controversy in 1990s, Mansha went into self-exile to Boston. He returned to Pakistan during the second Nawaz Sharif government. Mian Mansha has solid backing of PMLN (Pakistan Muslim League, Nawaz Sharif’s party). One of the prominent political leader of the PML (N), named Khawaja Asif, is said to be on Mian Mansha’s payroll. Khwaja Asif’s son, Asad, is officially employed at MCB bank with a high salary against no specific job specification”. http://docslide.us/documents/mian-muhammad-mansha.html
privatized to employees group, but somehow it has become a part of Chakwal Group, also closely related in business to Mian Mansha.

It was through complex intercorporate financing that Mian Mansha, his relatives and business associates ended up with five of eight privatized cement units which accounted for 45 percent of total industrial assets privatized by Sharif. Within months of their privatization, cement prices catapulted in the domestic market, forcing the government to order the dormant Monopoly Control Authority (MCA) to hold an inquiry into the possibility of the cartelization of cement. As expected, the inquiry absolved the privatized units of any wrongdoing.

It was because of the assets acquired through privatization that the Nishat Group, which was at the 15th position among the list of 43 top industrial families in Pakistan in 1972 and sixth in the ranking of the Monthly Herald in 1990, had risen to the top of the corporate world in 1993, when Sharif was dismissed on charges of corruption and other irregularities. Nearly half of the assets privatized by Sharif ended up with Mansha, his relatives or business associates. However, bringing together the National Group to bid for Muslim Commercial Bank (MCB) was the biggest business coup that the Chiniotis could have staged against their main business rivals. Before nationalisation, the MCB was a Memon bank owned by Adamjee, and its purchase by Chiniotis demonstrated their rising power and the decline of the Memons. The National Group which bought MCB was a consortium of 12 leading industrial families, of whom all but two, Chakwal and Bashir Jan Mohammad, were not Chiniti. While MCB was the flagship of the Chiniotis, now a rising power, they called upon a Memon banker, Hussain Lawai, to head it. It is on record that when Benazir Bhutto came to power in 1993, she developed amnesia about her pledge to investigate the privatization of the MCB to Nishat Group during Sharif’s regime. Apparently, after a meeting between MCB’s President, Hussain Lawai, and Prime
Minister Bhutto’s spouse Asif Zardari, a deal was struck. It is not known what transpired during this meeting but within a week of it Mian Mansha went into forced exile, to return to Pakistan only after the ouster of Bhutto in November 1996. It was only after the dismissal of her government that the collusion between Lawai and Zardari was exposed involving several deals such as the award of a gold monopoly to ARY Traders, a loan to Sadaruddin Hashwani (CEO of Hashoo Group) to facilitate the purchase of Occidental Petroleum and the dubious UBL privatization to Basharahill (Rehman, 1998).

One other major example of the importance of political contacts is the Jahangir Siddique Group’s association with Zardari, the former president and widower of Bhutto. This group was persistently in the news during the last decade following its massive growth in the financial sector and because of allegations made against it in national and international newspapers for illegal stock market manipulation in 2007. The reason why this group has been able to avoid prosecution for these alleged crimes is apparently due to its links with political elites.

The other tool used by business groups is their personal involvement in politics. Sadiq Dawood, the son of the founder of the Dawood Group, was a member of the national

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98 Occidental said it had sold a portion of its operations in Pakistan to Zaver Petroleum Corp., an affiliate of the Hashoo Group, a leading Asian conglomerate. The price was not disclosed. Zaver acquired Occidental’s subsidiary that owned properties in northern Pakistan’s Potwar Basin, which include interests in the Dhurnal and Bhangali oil and gas fields and the Ratana gas field. Those fields currently produce 4,200 barrels of oil and liquid petroleum gas and 25.2 million cubic feet of natural gas per day. Occidental retains a significant interest in the Badin Block in southern Pakistan and seven recently acquired exploration blocks totaling 8.7 million acres in northern and central Pakistan. http://www.upi.com/Archives/1995/04/17/Occidental-sells-three-assets/9802798091200/

99 The US$17 million deal (for a 26 percent stake) was reportedly pushed through by the legal advisor to the Basharahill group for UBL to the State Bank of Pakistan. Concerns over the financial stability of Basharahill, a company incorporated in Gibraltar with a paid-up capital of some 2000 pounds appeared to be alleviated as the company was entirely taken over by Prince Nawaf Bin Abdul-Aziz Al Saud, for US$400 million. http://www.Pakistaneconomist.com/database2/cover/c96-35.asp
assembly in 1951; he later became the treasurer of the Muslim League. During Sadiq’s involvement in politics, the Dawood Group received a massive boost; all their business units were established at that time. A similar situation occurred following the involvement of the family members of the Packages Group in politics. Syed Amjad Ali and Babar Ali served as Finance Minister, while two of the grandchildren of Syed Maratab Alim the founder, Syed Fakhar Imam and Syeda Abida Hussain served as federal ministers. Syed Amjad Ali served as Pakistan’s first ambassador to the United Nations. Another scion of the family is Syed Mohsin Ali of Mitchells Ltd. This family has been associated with the Pakistan People’s Party (PPP) of Zulfiqar Ali Bhutto and its return-on-assets trends show that the group obtained high rates of returns during his regime.

An important issue regarding links with elites in the state involves the role of the military. One of the largest conglomerates, the Fouji Foundation Group (FFG), is owned by the military, through a charitable endowment. The companies in FFG are among the leading enterprises in Pakistan. It has strong political and economic control and a very dominant social presence; it controls one-third of heavy manufacturing in the country as well as 6-7 percent of private sector assets. FFG’s directors have always been retired military generals and in spite of numerous allegations of corruption involving its companies, no evidence has been offered to confirm this.

### 7.1.1 State Business Nexus

The history of the links between business groups and political elites under different regimes is shown in Table 7.2. The implications of this nexus on business groups is also provided in this table, including how such ties have helped these enterprises secure access to loans. The tools used for a comprehensive comparative analysis of all seven business groups are ratio analyses and the Duncan test.
<table>
<thead>
<tr>
<th>Group Development</th>
<th>Political connections</th>
<th>State-business nexus and group performance (ROA)</th>
<th>Regime and access to Loans (DTE)</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nishat Group:</strong></td>
<td>Close ties with Prime Minister Nawaz Sharif, and many other top leaders of one political party, the Muslim League</td>
<td>Under the first military regime of General Ayub, it had only a few textile and jute industries in East and West Pakistan. Its listed companies then had an ROA of 7.864%.</td>
<td>Under the mixed democracy regime when the Nawaz Sharif government came to power twice, he privatized major cement firms and a bank to the Group at a cheap rate. The DTE was then 10.27 times with the performance of its firms providing an ROA of 1.024%.</td>
<td>During the mixed democracy regime, the Group’s access to loans increased appreciably which allowed it to buy privatized concessions with loans.</td>
</tr>
<tr>
<td>A Punjab-based enterprise originally active in the textile industry (Nishat Mills). Expanded into banking (MCB), power (Lal pir), insurance (Adamjee), aviation and cement (DG Cement).</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Kohinoor Group:</strong></td>
<td>The family’s link with Nishat Group helped it expand massively in the 1990s. The Group has been accused of many cases of bank loan defaults. But due to political links, it has not been subjected to serious court cases.</td>
<td>Kohinnor had its best ROA of 23.49% during the first bureaucratic regime as they availed themselves to the benefit of being market leaders who encountered little competition.</td>
<td>Its access to loans was highest during the third military regime with a DTE of 4.899 times against an ROA of 1.308% only.</td>
<td>Its access to loans under three military regimes was low with an unimpressive ROA. Loans were not approved by banks on the basis of company performance. Rather it was a result of special favors</td>
</tr>
<tr>
<td>A Punjab-based group where farmers became traders with a show shop in 1930, then started a rubber factory. After partition, the Group transferred its businesses to Lahore and made progress in the textile industry. It developed its own</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Union Bank in 1959 to overcome credit issues. East Pakistan’s separation and the nationalization policy undermined the Group but the family’s ties with Nishat helped the Group survive.

**Dawood Group:**

A Karachi and Sindh-based group led by traders and small business people at the start. They were among the pioneers who created a business culture in Pakistan by establishing a cotton mill in 1951 in Karachi and later a jute mill in East Pakistan and then some textile units in Punjab. Its core industry is textiles but the Group diversified into fertilizers, engineering, finance and power generation. The Group faced huge losses following nationalization and key players have lived in exile. The next generation under Hussain Dawood expanded the business by diversifying from textiles into other industries.

| Like other pioneer business groups, Dawood expanded with the help of government bank loans in the 1950s. The Group subsequently divested firms to the Memon group of Karachi. | Dawood had its best ROA of 17.93% under the first bureaucratic regime as the Group was availing itself to the benefit of being a market leader. Sadiq Dawood was a member of the national assembly in 1951 and later treasurer of the then largest political party, the Muslim League. | Dawood’s access to loans was highest during the first bureaucratic regime. This is the only group which does not show a variation in DTE and ROA. The regime during which it’s ROA was the highest and when its DTE was also the highest, during this regime. Dawood is an example of a group that expanded with the help of business knowledge plus political links. They got most returns by establishing multiple firms in different parts of Pakistan with approval and sanctions by the government on the basis of direct participation in politics and by being a member of state organizations which dealt with industrial expansion. |

Dawood had its best ROA of 17.93% under the first bureaucratic regime as the Group was availing itself to the benefit of being a market leader. Sadiq Dawood was a member of the national assembly in 1951 and later treasurer of the then largest political party, the Muslim League. Dawood’s access to loans was highest during the first bureaucratic regime. This is the only group which does not show a variation in DTE and ROA. The regime during which it’s ROA was the highest and when its DTE was also the highest, during this regime. Dawood is an example of a group that expanded with the help of business knowledge plus political links. They got most returns by establishing multiple firms in different parts of Pakistan with approval and sanctions by the government on the basis of direct participation in politics and by being a member of state organizations which dealt with industrial expansion.
### Packages Group:

A Lahore and Punjab-based enterprise, initially known as Ali Group, is one of the oldest groups with businesses in united India. The founder had developed contacts with the British Army and used it for future expansion in numerous businesses. The first foreign joint venture launched by the family, after the creation of Pakistan, was a soap factory with Lever Brothers. However, the group has grown around Packages Limited.

The family members of Ali Group were ministers and members of the national assembly. One member was ambassador to the US. The family’s direct involvement in politics helped them to expand their businesses with the help of government loans and by developing joint ventures with foreign firms. With political contacts, they managed to obtain approvals and sanctions.

Packages had its best ROA of 13.77% during the fourth military regime. The group expanded massively during this regime by creating ventures with foreign firms.

The Group’s access to loans was highest during the first democratic regime with 1.826 times against an ROA of 4.819%. This indicates that the Group was not expanding on higher share of loans; rather its expansion was due to its direct involvement in politics. The family is associated with the PPP.

### Fouji Foundation Group (FFG):

This military-owned conglomerate was established in 1954 and until 1970 it was exempted from paying any tax. It is in consumer-oriented industries. The directors of its companies have always been retired military.

FFG has been involved in a number of corruption cases. But being military-owned with generals controlling FFG, its companies have never been prosecuted or seen a decrease in its assets. This is the only group which does not show any variation in

FFG had its best ROA of 7.11% during the first democratic transition of 2008-13. The Group had been expanding continuously under each regime.

FFG’s access to loans was highest during the fourth military regime with 6.908 times against an ROA of 3.29.

The continuous strengthening of the group is proof of the persistent influence of the military.
generals. The major shareholders of each company are other subsidiary companies of FFG.

| Performance under different regimes, registering consistent growth. |
|-----------------|-----------------|
| **Jahangir Siddique (JS) Group:** |
| It is among the “new rich” group of companies. Established in 1991, in a short time span it became among the leading business groups. Associated with the financial sector, it is the first securities company in Pakistan. It has diversified but a major portion of its empire is in the financial sector. It is always in the news due to allegations of illegal stock market manipulations. |
| The Group had its best ROA of 8.63% during the mixed democracy. During that regime, the Group established the first securities company and had the capacity to manipulate the stock market. The Group’s access to loans was highest during the first democratic transition regime with 2.382 times against an ROA of 0.35% only. |
| This new rich business group has shown multiple new trends like becoming a market leader in new sectors, using intergroup contacts, creating ties with the top ruling elite (President) for expansion, and being a market leader in one sector though still diversifying by investing in different industries. |

<table>
<thead>
<tr>
<th>The Habib family was close to Jinnah and provided financial support to the Pakistan movement. The family had directorship ties with the Dawood and Aga Khan Groups through marriages.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Group had its best ROA in the first bureaucratic regime, with 27.35%. This was because it was the only established business group at that time and Habib Bank was the only</td>
</tr>
<tr>
<td>The Group has always maintained a DTE below the stipulated rate of the government. Under the first democratic transition (2008-13), its DTE was the highest, at 6.77 times.</td>
</tr>
<tr>
<td>The Group is an example of one that has survived in a country with numerous political crises. It was able to expand on the basis of good business strategies, to counter adverse public policies. The Group’s</td>
</tr>
</tbody>
</table>
Table 7.2 outlines the benefits individual groups attained by developing political contacts with the ruling elites of different regimes. This history of these companies indicates the nexus between their growth and their access to state-generated rents and bank loans through their contacts with ruling elites. To provide more a more in-depth analysis of the performance of these business groups under each regime, a comparative analysis is provided of their financial performance, with a focus on their public listed companies. This comparative financial analysis provides further corroborative – and very interesting - insights. This analysis is based on two major indicators. These are returns on assets (ROA), which depicts the performance of the groups, and the other is the debt-to-equity (DTE) ratio, which is used as an indicator of their access to loans.

### 7.2 Comparison of Business Groups under Different Regimes

The objective of this analysis is to measure the DTE of each business group under each regime against its performance, i.e. ROA. This analysis will provide two major insights. One, it will identify when unusual events occurred among all groups and if this led to one or more groups performing relatively better or worse than others. The second insight this analysis provides is regarding the rate of DTE in each regime of all groups. It also identifies the change in the average rate of DTE of each group under different regimes. This helps in identifying under which regime the rate of DTE of a group suddenly expanded. Table 7.3 provides graphical financial details of all groups’ ROA and DTE under each regime as well as an interpretation of what these figures indicate.
TABLE 7.3: Regime-based Financial Analysis of Performance of Business Groups

<table>
<thead>
<tr>
<th>Regime</th>
<th>ROA of Business Groups</th>
<th>DTE of Business Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regime 1 1947-57</td>
<td>![Graph 1]</td>
<td>![Graph 2]</td>
</tr>
</tbody>
</table>

Interpretation/Analysis

In the first bureaucratic regime, the business group which was most prominent was Habib Group; it was active in the corporate sector well before partition; the company had strong political ties with Jinnah. This is a good example of how a thriving enterprise well before the creation of Pakistan has sustained itself until the present period. Another group from the case studies which was present in the first 1BR was Dawood Group. A family member of the Dawood Group, Sadiq Dawood, was also a political elite, serving as treasurer of the Pakistan Muslim League. From these two groups, it can be inferred that under the 1BR, corporate elites were directly involved in state politics, providing them an edge over the rest of the competitors.

The graphs above indicate the financial data of the listed companies of these three major business groups. It clearly shows that the well-established Habib Group had the highest ROA when Pakistan was created. However, its ROE was very low. This suggests that due to newly-developed state threats and other infrastructural and social issues, people were not interested in investing in shares. The situation started getting better by the mid-1950s, but the DTE ratio of this decade showed that companies were not favoured in the shape of access to loans. The expansion of these business groups was due to excess demand and shortage of industrial goods. Simultaneously, the banks were not that strong to provide a huge loans to business investors. Therefore, in 1952, the Pakistan Industrial Development Corporation (PIDC) was established with an authorized capital of Rs. 10 million to help these entrepreneurs financially. Since the board of directors of PIDC consisted of big businessmen, it emerged as a consortium of these big business groups through which they started colluding with each other to establish new manufacturing projects. The PIDC also sanctioned loans to the fellow corporate elites.  

100 The total projects sponsored by the PIDC is estimated at Rs. 654.2 million. Of this amount, private enterprise contribution was Rs. 191.5 million, foreign aid Rs. 64.2 million, World Bank loans for the Sui Gas projects Rs. 46.2
A comparison of improved performance (measured by ROA) and the ability of the groups to access bank loans (measured by DTE) indicates that the Habib Group, in spite of a strong ROA, had registered a negative DTE under the first bureaucratic regime. This means that Habib’s dependence on bank loans to improve its performance had always been low. But the newly-developed Dawood Group, from its initial years in 1955 had the highest DTE, compared to the other two groups. This suggests that business groups with political connections, even from their start, without showing any strong performance record, had been able to access bank loans.

Regime 2  1958-68

<table>
<thead>
<tr>
<th>Year</th>
<th>ROA</th>
<th>DTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1958</td>
<td>30%</td>
<td>-5%</td>
</tr>
<tr>
<td>1959</td>
<td>25%</td>
<td>-3%</td>
</tr>
<tr>
<td>1960</td>
<td>20%</td>
<td>-2%</td>
</tr>
<tr>
<td>1961</td>
<td>15%</td>
<td>-1%</td>
</tr>
<tr>
<td>1962</td>
<td>10%</td>
<td>-0%</td>
</tr>
<tr>
<td>1963</td>
<td>5%</td>
<td>+1%</td>
</tr>
<tr>
<td>1964</td>
<td>0%</td>
<td>+2%</td>
</tr>
<tr>
<td>1965</td>
<td>-1%</td>
<td>+3%</td>
</tr>
<tr>
<td>1966</td>
<td>-2%</td>
<td>+4%</td>
</tr>
<tr>
<td>1967</td>
<td>-3%</td>
<td>+5%</td>
</tr>
<tr>
<td>1968</td>
<td>-4%</td>
<td>+6%</td>
</tr>
</tbody>
</table>

The first bureaucratic regime’s focus on industrial development provided a strong boost to the corporate sector, but it also led to unequal wealth distribution, concentrated among 22 families. This issue, along with the 1965 war, weakened General Ayub’s government and ended with the separation of Bangladesh from Pakistan. Dawood and Kohinnor were established during the bureaucratic regime, but Packages and Nishat established their flagship companies in 1961. Habib Group was registering very strong ROAs at the start of this regime, but with the passage of time when private banks were established (by other business groups like Union Bank and MCB), Habib Bank’s returns started declining; by 1968, it was showing less than 4% returns.

The higher ROE (values attached in Appendices) of all groups except Packages indicates that the groups were debt financed. As the years passed, their ROA decreased as a result of new competition, while the decrease in ROE shows the increase in equity financing. The DTE does not indicate any outlying values in all these years for all groups as compared to their returns; this indicates that the debt/loan availability to these groups was increasing, a trend that indicates that their businesses were growing at a fast pace. The two groups which had a negative DTE were Habib and Packages. The decrease in DTE shows that the debt proportion in these groups’ financial mix was decreasing. So, a greater burden was now with the shareholders, with the ROE decreasing.

The reason why PIDC’s contribution totaled Rs 335.6 million was due to the large grants budgeted every year by the central government.

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The graphs above indicate the performance of selected business groups, as per their ROAs and DTEs under the first military regimes. Under this military regime, new groups entered the corporate sector, like the Nishat and Packages Groups. Both groups were from Punjab. Though the Packages Group was in business for a long time, its companies were listed on the stock exchange only in the mid-1950s. At the start, both groups entered the manufacturing sector with their flagship companies; for Packages, it was in the paper industry while Nishat commenced business with Nishat Cotton Mills, in the textile industry. Dawood also had one company, Dawood Cotton, in the 1950s, but in 1961 established an insurance company, Central Insurance Company (CIC). The entry of the new groups reduced the average ROA of the old groups like Dawood which was earning an average ROA of above 20% during the bureaucratic regime. With the entry of the new groups, Dawood’s ROA fell to 12-14% during the military regime. There can be two reasons for this: first, since total production was now shared among all competitors, market share of each company reduced; the second could be the reduction in the assets employed which could decrease DTE. But for all selected businesses this could not be the reason since their ROAs and ROEs were also expanding during those years. Their access to loans against their returns was the same. But the decrease in 1965 for all groups was an outcome of the war that year with India. After this war, till the end of this regime, civil riots did not let corporate sector/business groups attain their previous returns.

Regime 3 1969-71

Interpretation/Analysis

2MR was a short military regime of three years when Pakistan was going through massive civil tensions while also at war. This could be considered a transitional phase, when the country was divided in half after the loss of East Pakistan in a war with India in 1971. All four business groups present at that time were earning low returns, but when comparing them, Dawood Group was the best performer. On average, all groups were earning 4% of ROA and their loan accessibility during that time was low too. Certainly, when a country is in a war situation, corporate enterprises will register a low return. Therefore, during the second military regime, when massive civil riots led to war, these business groups’ ROAs and ROEs decreased significantly; so too did their DTEs. Comparatively, the rate of decrease was most serious in the returns of the Packages Group.
During the regime of Zulfiqar Ali Bhutto (1972–77), the nationalization policy was introduced. The old business groups, which were registering an average ROA of almost 15% during the military regime of General Ayub, faced heavy losses and their average ROA decreased to 5%. Dawood was most negatively affected by nationalization. Most of its companies were taken over by the government; still, its returns were better than that of the other groups. The two old groups, Packages and Dawood, maintained their ROA during Bhutto’s regime but at almost half the rate they enjoyed in the 1960s. The reason was that the major flagship companies of both groups, Dawood Cotton Mills and Central Insurance Company, for Dawood and Packages respectively, were not nationalized. The DTE of all business groups during first democratic regime was almost two times to their equity, which was fairly acceptable according to the standards set by the State Bank of Pakistan. Among the four groups, two that still registered higher values in DTE were Kohinoor and Packages. Packages Group had had close ties with the ruling PPP of Bhutto.

When General Zia-ul-Haq introduced privatization, this did not help rebuild the confidence of corporate elites who were badly affected by nationalization. The average ROA of all groups remained lower than 10% except for Packages which showed the highest returns during that first half of the third military regime. This could be due to the approval of plants and projects that Packages had secured during the Bhutto regime. However, after the mid-1980s, all other groups started increasing their investments and their ROAs increased. The DTE values registered under this regime indicate that almost all groups, due to lack of interest in reinvesting and loss of trust, were not availing themselves to loans from banks. Only in 1986 did Kohinoor Group show a massive rise in its DTE, of 18 times.
There was clearly a big difference in DTE values under both regimes. Under Bhutto, the maximum reached was 2.40 times for the Kohinoor Group in 1976 compared to 12 times in 1986. This indicates a massive increase in its access to loans, though its ROA remained below 1% during these years. There was no massive increase in the ROA and ROE positions of Nishat Group during these years, bringing into question the grounds on which it was given loans which increased its DTE position by almost 20 times, much more than the other groups. Nishat Group had close ties with Nawaz Sharif. This happened at the same time Sharif’s family-owned group, Ittefaq Group, also expanded and emerged as one of the top business groups in Pakistan.

<table>
<thead>
<tr>
<th>Regime</th>
<th>1989-98</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Interpretation/Analysis

In the controlled democratic regimes of the 1990s, the business groups availed themselves to state-generated benefits on the basis of personal contact with the ruling elites. For this reason, the performance of all selected business groups varied extensively during this decade. In this regime, Dawood registered an increasing ROA pattern, from 1991-93 and 1997-98 (Nawaz Sharif’s government). Packages Group, which enjoyed higher returns in the early part of mixed democracy (Benazir Bhutto’s government), also experienced a decreasing trend in the late 1990s (under Sharif’s government). The rapid growth of the new rich JS Group occurred during this decade with the highest returns registered in 1992-94 (a time of continuous dismissals of democratically elected governments by President Ghulam Ishaq Khan). However, the Fouji Foundation Group showed a relatively slow pace of return on its assets when compared to all other groups. In addition, in the case of ROEs, a similar recording was noted among all groups. However, the returns they gave their shareholders varied drastically each year. Dawood offered the highest returns and Nishat the least. The reasons for the low ROA and ROE of Nishat Group during this period was discussed in its case study. The graphs show a massive increase in Nishat’s loan access although its ROA remained below 1% during these years. The ROA and ROE positions of Nishat in the years that did not show any massive increase in its performance was also a time when the group was offered loans which appreciably increased its DTE position, by almost 20 times more than the other groups. As mentioned, Nishat Group, through Mian Mansha, was closely tied to Prime Minister Sharif.
Regime 7  1999-2007

Interpretation/Analysis

The figures above indicate that under Musharraf’s regime all business groups registered increasing returns, in spite of security issues and the “War on Terror” which undermined internal stability. As per DTE, Nishat showed the highest values when compared with all other groups; its highest value of 15.22 times was registered in 2002. The second highest DTE ratio was registered by Kohinoor, a group allied with Nishat Group; its highest value was 5.50 times. However, when these groups’ DTEs are correlated with their ROAs, Nishat’s values are not impressive. Nishat’s ROA reached the maximum of 4.16% in 2007. On the other hand, Packages’ ROA in this entire regime was far higher than that registered by Nishat and Kohinoor. Packages highest returns was 17.35% in 2007. This indicates that although Nishat and Kohinoor’s ROA was not strong in comparison with other groups, their access to loans was still much higher. In other words, in the financial mix of these two groups, their share of debt as compared to equity and assets was 15 times greater.

Regime 8  2007-12

Interpretation/Analysis

By August 2012, the number of listed firms owned by 41 big business groups amounted to 207, out of a list of 307 companies provided by KSE officials to the author (see Appendix, 1). Out of these 41 groups, seven were selected as case studies. In politics, a complete transition of one democratic ally elected government to another, after completing its five year tenure, had a direct positive effect on the performance of these business groups.

By December 2012, as many as 4,500 Statutory Regulatory Orders (SROs) had been issued by the Federal Board of Revenue (FBR) as favors, including in matters of lower taxation of individuals and entities belonging to the elite class while some political favourites benefited from government rents. At
different times, businessmen kept demanding the withdrawal of FBR’s controversial SROs as it helped only the chosen ones.

7.3 Comparing Business Groups, 1947-2012

Figure 7.1 outlines the performance trends of each business group based on the ROA of their listed companies.\textsuperscript{101} The returns of all groups indicate a positive trend though these figures fluctuated under different regimes. The only group to register a huge fall in its ROA was the JS Group (in orange), in 2009. However, an assessment of the performance of the JS Group under this regime indicates that this downturn did not affect its future growth as it obtained favors and excelled under the subsequent government.

Figure 7.1 indicates that in the first 20 years after Pakistan’s independence, supportive industrial policies had helped the old groups secure rents to develop as major enterprises. However, after 1968, civil riots, the separation of East Pakistan and the nationalization policy of Bhutto led to a sudden downturn on the average ROAs of all the business groups. An improved performance was registered by all groups from the late years of the Zia regime that is after 1985. However, these groups sustained better returns in the decade of the mixed democracy, from 1989 to 1998. Though Pakistan had eight governments during that time (four elected and four care-taking), the corporate sector had availed itself to privatization and other supportive public policies. At the end of this regime in 1998, a sudden fall in the performance of the groups was registered. This was the result of the sanctions placed on Pakistan by the United States due to the former’s insistence on nuclear testing and the Kargil War. This became the reason for a change of regime when a democratically elected government fell following a military coup in 1999. Under the

\textsuperscript{101} In comparison, Fauji Foundation Group’s (FFG) data is plotted on the secondary axis. This is the only group not associated with family businesses as it is a military-owned group.
Musharraf regime, an upward trend in the returns of all the business groups was registered due also to foreign involvement in the corporate sector. Following the 9/11 incident in 2001, Pakistan became a strong US ally. Subsequently, massive foreign aid inflow boosted Pakistan’s corporate sector and as a result, the performance of the listed companies of all these groups improved.

**FIGURE 7.1:** Comparative Analysis of ROAs of Seven BGs, 1947-2012

Briefly put, Figure 7.1 indicates that over the last thirty years, after the nationalization of industrial firms and private banks during the early 1970s, corporate elites have obtained the support of the state to develop. However, inconsistent public policies and political instability have prevented these business groups from consistently registering high levels of returns. The average ROA trend has been less than 10 percent for all groups over the last thirty years.
To statistically support this argument, a Duncan test was applied to all business groups to grade them from the highest to lowest as per their performance using all three ratios. All three ratios, ROA, ROE and DTE, reflect different aspects of the performance of these groups. For the application of Duncan test, first the One-Way ANOVA needed to be applied to measure the significant difference levels involving the performance of all groups. The results in Table 7.4 show that there is a clear difference in their performance over the years as the P-value under all ratios are 0.000.

**TABLE 7.4: Comparative Analysis of One-Way ANOVA Results of All Groups**

<table>
<thead>
<tr>
<th>ANOVA</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>Between Groups</td>
<td>3730.264</td>
<td>6</td>
<td>621.711</td>
<td>13.228</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>15651.272</td>
<td>333</td>
<td>47.001</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>19381.536</td>
<td>339</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>Between Groups</td>
<td>18653.567</td>
<td>6</td>
<td>3108.928</td>
<td>6.617</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>156459.66</td>
<td>333</td>
<td>469.849</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>175113.231</td>
<td>339</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DTE</td>
<td>Between Groups</td>
<td>576.299</td>
<td>6</td>
<td>96.050</td>
<td>11.470</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>2788.570</td>
<td>333</td>
<td>8.374</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>3364.870</td>
<td>339</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Duncan test results in Table 7.4 indicate that the business group that registered the highest average ROA over the last 65 years is Dawood. This Group registered a mean return on assets of 10.65 percent, the highest among all business groups. The groups that registered the least ROA over the years were Kohinoor and Nishat with a score of 2.62 percent and 2.74 percent respectively. Nishat and Kohinoor are closely associated through family ties. The massive growth of both groups was due to their political contacts with ruling elites. Their performance based on the ROA of their listed companies is the lowest, but a review of their assets indicates that Nishat and Kohinoor are presently among the top business groups.
TABLE 7.5: ROA Comparison of All Business Groups using Duncan Test

<table>
<thead>
<tr>
<th>ROA Duncan&lt;sup&gt;a,b&lt;/sup&gt;</th>
<th>Groups</th>
<th>N</th>
<th>Subset for alpha = 0.05</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Kohinoor</td>
<td>62</td>
<td></td>
<td>2.6218</td>
</tr>
<tr>
<td>Nishat</td>
<td>52</td>
<td></td>
<td>2.7413</td>
</tr>
<tr>
<td>FFG</td>
<td>27</td>
<td></td>
<td>4.4106</td>
</tr>
<tr>
<td>JS</td>
<td>23</td>
<td></td>
<td>6.3793</td>
</tr>
<tr>
<td>Packages</td>
<td>52</td>
<td></td>
<td>8.0052</td>
</tr>
<tr>
<td>Habib</td>
<td>66</td>
<td></td>
<td>10.0560</td>
</tr>
<tr>
<td>Dawood</td>
<td>58</td>
<td></td>
<td>10.6580</td>
</tr>
<tr>
<td>Sig.</td>
<td></td>
<td>.264</td>
<td>.190</td>
</tr>
</tbody>
</table>

On the other hand, Dawood’s ROA is relatively high. This Karachi-based Memon group has proved that strong business knowledge and a long-term vision, not common in the other groups, allowed Dawood to survive better. Although nationalization undermined this group the most, even then its average returns were the highest compared to the others.

The two groups that belong to new rich category, FFG and JSG, registered almost the same results and the reason for this is the number of years they have been in business.

To measure the confidence and trust of shareholders over the years of these business groups, the ROEs of the listed companies of each group were tabulated. They are presented as a line graph for each business group in Figure 7.2. The ROE trend of all the business groups indicates that an average 20 percent has been the equity share of all business groups. The figure has remained the same in all years for most of these business groups.
FIGURE 7.2: Comparative Analysis of ROE of Seven BGs, 1947-2012

The fall in equity to negative is seen in only one group, FFG. An individual analysis of each listed company of this group revealed that this was due to one company, Fauji Fertilizer bin Qasim. This company had faced crises from time of its establishment in 1993 due to technical, financial and managerial reasons until 2001. However, the company’s operations were suspended in 2001 due to accumulated losses of Rs. 6.5 billion. It resumed production in September 2003, after a lapse of two years. Apart from this one case of massive accumulated losses, which decreased the ROE of the FFG group, none of the other groups showed a massive increase or decrease in ROE over the years. The Duncan test results in Table 7.6 also indicate that, based on ROE, Dawood registered the highest performance and Kohinoor performed the worst.
Similar results are given when taking ROE as an indicator for performance. Shareholders invest in companies on the basis of the returns on assets. The average highest ROE was recorded by Dawood Group, 27.334 percent, and its ROA was also the highest with 10.65 percent. The average lowest was by Kohinoor Group, 6.27 percent. In the case of the Dawood Group, the average DTE was 1.33 times, which is less than the accepted value and shows that the group relied on its own assets and equity more than loans to grow; its future position is strong. In the case of Nishat, the average ROA was 2.74 percent and average ROE was 9.71 percent. As per the equity position, the average DTE can be 3.54 times but in actual fact it was 4.47 times. This value is not supported by the ROAs earned by the company. Banks normally consider these two factors while financing any business loans. However, if the banks are bypassing that law, it indicates that either the bank by itself has strong ties with the business or some political influence is reason for such favoritism.

Figure 7.3 presents the DTE ratios of all seven business groups from their date of incorporation. The line graph clearly shows that the groups which were performing best
as per ROA and ROE were Dawood Group and Packages Group as their returns were the highest. However, though they were having high returns, their DTE ratios, which were taken as a figurative ratio for access to loans, was low. The groups which had low ROAs and had high DTE ratios included the Nishat and Kohinoor Groups. This trend started during the mixed democracy regime, particularly during Nawaz Sharif’s government. For example, when MCB became part of the Nishat Group, its DTE increased. The sudden increase in the DTE of Nishat Group in the 1990s can be due to two reasons. One is that, in 1991, MCB was bought by Nishat Group and banks usually have high DTE. When included with the Group’s total DTE, it increased the overall DTE. Second can be the special favors given to them as Mansh was a close acquaintance of Sharif; this facilitated access to huge loans though the ROAs were not supportive of such loans.

![FIGURE 7.3: Comparative Analysis of DTEs of Seven BGs, 1947-2012](image)

Table 7.7 provides the results of the Duncan test. It grades the Nishat Group with the highest DTE and the JS Group the lowest. The average mean DTE of Nishat Group was 4.77 and that of JS was 0.9165. This means that the Nishat Group’s access to debt was
4.77 times to its equity and that of JS was 0.9165. Though the Nishat Group’s ROA was only 2.47 percent which is quite low as the average ROA of all the old groups over the years had been above 105, its access to funds was much higher than the groups with a high returns on assets.

**TABLE 7.7: DTE Comparison of All Business Groups using Duncan Test**

<table>
<thead>
<tr>
<th>Groups</th>
<th>N</th>
<th>Subset for alpha = 0.05</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>JS</td>
<td>23</td>
<td>0.9165</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Packages</td>
<td>52</td>
<td>1.3017</td>
<td>1.3017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dawood</td>
<td>58</td>
<td>1.3393</td>
<td>1.3393</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Habib</td>
<td>66</td>
<td>2.3554</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kohinoor</td>
<td>62</td>
<td>2.4965</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FFG</td>
<td>27</td>
<td></td>
<td></td>
<td>4.3780</td>
<td></td>
</tr>
<tr>
<td>Nishat</td>
<td>52</td>
<td></td>
<td></td>
<td>4.7760</td>
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</tr>
<tr>
<td>Sig.</td>
<td></td>
<td>0.533</td>
<td>0.086</td>
<td>0.530</td>
<td></td>
</tr>
</tbody>
</table>

### 7.4 Summary Comparative Financial Analysis of Groups’ Performance under Each Regime

An analysis of the averages of the ratios under each regime (see Table 7.8) provides interesting insights. An increase in ROA can be due to two reasons, i.e., either assets are reduced or profitability of the company has increased. If the investments remain constant and profitability increases, this is a good sign for the company as it shows that the employed investment is utilized to its maximum and average cost is reducing. However, if ROA increased due to a decrease in assets, this is not a healthy sign as it could be the result of investment withdrawals or asset sales. Therefore, a measurement of the position of ROEs along with the ROA provides interesting insights. An increase in ROE can be due to increase in profitability or a reduction in equity which occurs because of a
reduction in shares issued or a withdrawal of reserves. Equity is considered to be the most expensive form of finance for a company as the shareholders are the highest risk-taker in the event of the liquidation of the company. If the ROA of the company is increasing and the ROE is showing a higher increase, this indicates that the figures are supporting each other which can be counter checked by the DTE ratio. If increase in ROE is double to the increase in the ROA and DTE, showing a ratio of 2:1 then the values are aligned. The financial data fits completely to this financial data accuracy standards. The regimes in which this standard was not followed, in the context of the DTE, this indicates that some special favors or rents had been given to the group by that particular regime.

**TABLE 7.8: Regime-Based Average Ratios of Seven Business Groups, 1947-2012**

<table>
<thead>
<tr>
<th>Items</th>
<th>Habib</th>
<th>Kohinnor</th>
<th>Dawood</th>
<th>Packages</th>
<th>Nishat</th>
<th>FFG</th>
<th>JS</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>17.35</td>
<td>10.09</td>
<td>-0.685</td>
<td>23.49</td>
<td>25.39</td>
<td>0.806</td>
<td>17.93</td>
</tr>
<tr>
<td>ROE</td>
<td>1.422</td>
<td>14.62</td>
<td>31.71</td>
<td>0.687</td>
<td>4.818</td>
<td>5.742</td>
<td>0.528</td>
</tr>
<tr>
<td>ROA</td>
<td>5.879</td>
<td>16.54</td>
<td>1.738</td>
<td>2.29</td>
<td>7.250</td>
<td>2.020</td>
<td>10.34</td>
</tr>
<tr>
<td>DTE</td>
<td>0.064</td>
<td>15.12</td>
<td>2.418</td>
<td>2.815</td>
<td>12.13</td>
<td>2.957</td>
<td>11.67</td>
</tr>
<tr>
<td>ROA</td>
<td>5.342</td>
<td>25.3</td>
<td>5.971</td>
<td>2.730</td>
<td>11.05</td>
<td>2.864</td>
<td>10.44</td>
</tr>
<tr>
<td>ROE</td>
<td>0.049</td>
<td>21.8</td>
<td>6.37</td>
<td>-1.46</td>
<td>-6.540</td>
<td>3.010</td>
<td>4.034</td>
</tr>
</tbody>
</table>

Table 7.8 outlines the averages of the ratios during each regime of all seven business groups. The regimes during which special favours were given to each business group are highlighted in red and the years in which their performance as per ROA is the highest are highlighted in yellow. It becomes clear from Table 7.8 that the old business groups (Habib, Kohinnor and Dawood) had the best ROA during the first bureaucratic regime.
(1947-57) compared to any other regime. As this was the regime when government facilitated most private investments, the early investors get the most out of it. In later years, their performance decreases due to the increase in competition and changing policies of the government. But with changing regimes, they started securing benefits through political contacts in the shape of loan access, indicated in their DTEs. When their DTE values are compared, Nishat Group recorded the highest, 10.27 times, under the mixed democracy regime of 1989-98. Although Nishat’s ROA and ROE had continuously dropped during the last two regimes of mixed democracy, still its average DTE increased.

After Nishat, the group with the highest DTE was FFG which obtained much support in the fourth military regime of General Musharraf (1999-2007), with an average DTE value of 6.908 during that period. This figure was more than two times higher than the value of its DTE under the previous regime of mixed democracy of 2.96. Packages Group secured favors during the first democratic regime of Zulfiqar Ali Bhutto. This is probably because the family members of this group held important political positions in Bhutto’s PPP. However, the rate of increase in DTE of Packages is small. JS registered an outlier value in DTE during the first complete democratic regime of Asif Ali Zardari. JS’s DTE increased to 2.38 from 0.838 under the previous regime while its average ROA decreased to -0.03 from 7.87. The reason for this was apparently due to the close friendship of Jahangir Siddique with Zardari, allowing the former to have access to loans. As Nishat and Kohinoor obtained favors during the Mixed Democracy era, particularly in the years of Navaz Sharif’s administration due to a close alliance between him and Mian Mansha. In addition, through Mian Mansha, due to family linkages, these favours were transferred to the Kohinoor Group led by the Sehgals.
7.5 Summary of Analysis

Figure 7.4 indicates the regime-based performance of listed companies of all seven business groups. This specifies the highs and lows of each group using all three ratios. This can be taken as a final summary of the analysis of each group under each regime. The final graphs of all groups indicate that each group performed best as per all three ratios under different regimes. This means that not one specific regime was supportive of all the groups. Rather, each group developed based on its personal contacts with the political elites of different regimes to gain maximum benefits and increase their returns. This is indicated in Figure 7.4.
Figure 7.4 provides certain observations about the performance of business groups during the last 65 years. The first observation is that the space vacated by companies that moved to India after the partition provided these business groups the opportunity to create a presence for themselves in the corporate sector. The first bureaucratic regime did not generate much growth as there was an inadequate number of businessmen in Pakistan. This deficiency provided a vast space for entrepreneurs to enter in the corporate sector with strong support from the government, which was equally provided to all business groups. The second observation is that, as La-Porte (1999) suggests, in most countries the
controlling shareholder is a family; a similar situation prevailed in Pakistan. These families contributed to a major push in economic development and it was considered one of the best performing countries in the region in the 1960s. The nationalization policy of Zulfiqar Ali Bhutto, to address the problem of wealth concentration in the hands of a few business groups, was a major setback to the growth of the corporate sector which was still very much in an infant state. The change in the ownership structure of the firms had decreased their returns.

The decline in the performance of companies nationalized draws attention to second the conclusion of La-Porte’s (1999), i.e. that “the controlling shareholders do not support legal reforms that would enhance minority rights; in fact they typically lobby against them”. This situation was observed when after the introduction of privatization by General Zia’s military regime. The investors lobbied together not to further invest in Pakistan’s corporate sector until their rights were safeguarded.

The third important observation is about the tools adopted by business groups when a market reaches saturation, seen after Bhutto’s regime. The business groups after this regime started gaining benefits from ruling elites on the basis of rent-seeking and personal contacts. As suggested by Faccio (2006), firms without personal involvement in politics need to bribe politicians in order to obtain the rents necessary for sustaining a good position in the corporate world. In Pakistan, the case of Nishat Group and JS Group are examples which fit this logic. The other form of corruption discussed by Faccio (2006) was the personal involvement of businessmen in politics in order to “squeeze the state”. This fits well with the case of the Dawood and Packages business groups.

Each group’s performance varied under different regimes and, as noted, no single regime was favorable to all business groups. But one different outcome was observed, compared to what Faccio has contended. i.e. that democratic governments are associated with higher
incidence of political connections. However, under both the civilian and military regimes, the incidence of political connections of business groups with ruling elites exist. A sudden variation in the performance of the groups under military regime was as evident as it was under civilian regimes. However, the military owned group, FFG certainly showed a massive increase under military regimes.

The fourth observation is that none of the business groups had focused on a single industry and has followed a highly diversified business strategy, with the exception of the JS Group. The fifth observation is that only the military-owned group was not affected by civilian regimes, registering a smooth performance pattern continuously. The other groups obtained benefits from particular regimes with which they had strong ties. The “new rich” are those business groups that focused on the services sector and real estate. Kohinoor, statistically, shows a continuous decreasing pattern in its average ratios under all consecutive regimes after nationalization. Three other old business groups show variation in their returns under different regimes, based on their political contacts and networking. The industrial sector is still controlled by the old business groups. In spite of numerous political, security and economic shocks, the corporate sector has experienced massive expansion since 2002. Its continued growth after 2007 has been facilitated by the democratic governments that were able to complete their tenure.

The data provided here indicates that state patronage under each regime is specifically dependent on the personal contacts that the owners of the business groups had with the regime in power. The only regime which was supportive of all business groups was the first bureaucratic regime. However, even in this regime, an evident favouritism was obvious in government contracts and licenses towards West Pakistan’s corporate elite of Karachi. After it, under the first military regime, Pakistan’s corporate sector registered massive exports and all business groups, regardless if they had contacts with the state,
obtained a boost in their businesses which were established during the first bureaucratic regime. The groups that had business acumen like the Memon group of Karachi established industrial firms in other parts of the country like East Pakistan and Punjab. The sudden nationalization policy, targeting the top 22 business families, undermined all business groups and most of the elites of these groups went into exile during that regime. After this, a shift of government policy helped the Chinioti (Punjab)-based corporate elites and they benefited massively from privatization, including by having an unjustified access to bank loans. The reason can be as the Prime Minister at the time of privatization, Nawaz Sharif, belonged to a business family in Punjab. Later, under the fourth military regime of General Musharraf, Pakistan’s economy benefited from heavy foreign aid inflows which boosted the corporate sector. Under the last regime, an upturn was registered by all the business groups as they invested in new projects.
CHAPTER 8: CONCLUSION AND RECOMMENDATIONS

8.1 Conclusion

A key point of this study of the rise of Pakistan’s corporate elite under different regimes is that no business group sustained the same position in the corporate world as it had in 1950 or in 1970. Though the old business groups such as Habib, Dawood and Kohinoor are still sustaining themselves in the corporate world. However, at the same time certain business groups like Nishat and Packages which were not that prominent in Pakistan’s early years had lifted their positions in the corporate world. Among them, a new rich, such as Jahangir Siddique and Fauji Foundation Group, have emerged. This changing structure of the corporate sector raised questions regarding the impact of different political regimes on the sustainability of big business and drew attention to three crucial issues: First, the impact of regime change on the policies affecting local enterprise. Second, the strategies adopted by old business groups which helped them to sustain their position in a highly competitive corporate sector. Third, the state’s use of its power in its different manifestations under a military-controlled or democratically-elected government on economic and enterprise development.

The state has operated at multiple levels in the economy; the early bureaucratic regime was a sound supporter of private industrialists; however, the first democratic regime took over most of the firms under nationalization in the name of countering unequal distribution of wealth; later, the mixed democracy was an initiator of massive privatization of state-owned units; and military regimes returned confidence to private industrialists through consistent policies and political stability. These different manifestations of the state have, in most instances, compelled corporate elites to follow certain networking techniques and use economic rents to be close to the ruling elite.
After the separation of Bangladesh, the state under Zulfiqar Ali Bhutto, with a strong nationalization policy, cannot be faulted for not attempting to formulate effective, even visionary, macro and micro economic policies. Notwithstanding, its lack of a bureaucratic team with business knowledge had serious repercussions on the corporate sector and the economy. The industrial sector failed to prosper in spite of extensive public sector investment; the units nationalized did not perform well as they were performing under the control of previous owners; the actions of countering wealth concentration in the hands of a few did not help the middle class to raise their standard of living; and the nationalization policy of the socialist government to stop the growth of private industrialists did not manage to lift the overall economic conditions of the poor and middle class of society.

The reversal of the nationalization policy by Zia-ul-Haq did not manage to put the de-tracked corporate growth of the 1960s back on track. The extensive foreign aid due to the Afghan war did lead to a huge inflow of foreign exchange into the economy, allowing it to expand. However, the private industrialists were not interested in investing in mega projects, a factor that led to expansion of the SME sector\(^\text{102}\). When Nawaz Sharif, with a business background, joined politics and became Finance Minister in 1980 to 1985 in Zia’s regime and later Chief Minister of Punjab, he changed the previous track of business activities. The political attention and decisions related to the corporate sector took a major shift from Karachi (Sindh) to Faisalabad (Punjab). Pakistan found a new Chinioti corporate elite competing with the well-established old corporate elite of Karachi. This new elite created new strategies to secure state patronage in the shape of personal links.

\(^{102}\) For a longtime, the mainstay of Pakistan’s industrialization strategy was large-scale manufacturing which recorded 8.78% growth rate during the period 1950 to 2003 as it was consistently supported by a set of macroeconomic policy measures. The small-scale sector too registered an impressive growth rate of 5.06% during the same and that too without benefiting directly from policy support. (Data from SMEDA)
and networking. This situation gave a new dimension to the corporate sector, in the shape of the individual business groups rising under different regimes based on their own personal contacts with the ruling elite of a particular regime.

After Zia’s long military regime of eleven years, over the next decade Pakistan faced eight (four elected and four caretaker) governments. During the era of these eight governments, a new mode of doing business was adopted by big business groups. It was about developing close acquaintances with the ruling elite to secure access to state rents as there existed an uncertainty about the sustainability of the policies with governments constantly changing. The corporate sector which appeared to be flourishing was a boon for both big and small businesses. After the reversal of the nationalization policy, business groups focused on securing individual benefits by developing political connections rather than working in a collective manner to promote overall corporate sector development. This philosophy is still being followed as the country’s economic conditions have worsened after energy crises and continuous incidents of terrorism.

Corporate elites had acquired companies at fire-sale prices through privatization. The purpose of privatizing public sector companies was to transfer their liabilities to the new owners. But, in practice, these new owners failed to repay these liabilities and had to be cleared by the government. In the words of Rehman (2006): “the unkindest cut inflicted by the privatization of Benazir and Nawaz Sharif on the people of Pakistan related to the liabilities of the privatized units”. The Benazir and Nawaz governments had privatized 88 industrial units by October 15, 1996, for a consideration of Rs. 15,409 million, out of which Rs. 4 billion was in default, involving the owners of 30 privatized units. Of these 30 owners, 13 have not paid a single penny after assuming control of privatized units.

On Dec 1, 1995, the top 43 groups owned 212 of the 522 non-financial companies listed on the Karachi Stock Exchange (KSE) accounting for 43 percent of the total
manufacturing assets; this figure excludes those owned by multinationals and public sector enterprises. Out of the 175 listed, 76 belonged to these categories: banking companies, modarabas\textsuperscript{103}, leasing and financial companies. Their power was clustered in textile, sugar, cement, insurance, banks and modarabas while almost all the newly-listed captive power plants belonged to these groups. Together they owned at least 122 textile mills, 19 sugar mills, eight cement plants, 12 insurance companies, 11 banks, 16 modarabas, eight leasing companies and seven power plants. This indicates the concentration of wealth in these few business families, a factor that strengthened them financially. However, the continuous drop in GDP rates along with other poor development indicators suggested that this expansion of corporate sector did not trickle down to the masses. This suggests a link with the increasing foreign assets of these business groups.

The other tool used by the governments of this era was statuary regulatory orders (SROs) under which ruling elites granted favors to friends, political cronies and specific powerful groups/lobbyists of inefficient producers through concessions in income tax, customs duties and GST (General Sales Tax). The 1973 constitution clearly provided that “imposition, abolition, remissions, alteration or regulation of any tax” would fall under the jurisdiction of the Finance Bill to be passed by the National Assembly. But during the Zia era, when the National Assembly was not in existence, this power was usurped by Central Board of Revenue (CBR) which imposed duties, withdrew duties, exempted industries from paying off taxes and duties and made refunds with retrospective effects when someone had to be favored simply by issuing SROs. The use of the CBR and SROs

\textsuperscript{103} An agreement between two or more persons whereby one or more of them provide finance, while the other(s) provide entrepreneurship and management to carry out a business venture, whether trade, industry or service, with the objective of earning profits. The profit is shared in an agreed proportion. The loss is borne by the financiers only in proportion to their share in the total capital.
for imposing and changing rates of duties continued under both Benazir Bhutto and Nawaz Sharif because of their penchant for corruption and subordination of the bureaucracy. By 2013, 5,000 tariff lines were SROs covering 84 percent of trading lines — impacting 45 percent of imports and encompassing almost all sub-sectors, rendering the actual tariff different from the standard tariff. With this tool, preferential treatment provided to its beneficiaries allowed inefficient producers to “extract rents” and make easy money without having to make the effort to produce and market competitively good quality products (Kardar, 2012). In the corporate scene, the fourth military regime implemented a massive privatization exercise of state-owned corporations including utilities such as Telecom (PTCL) and the Water and Electricity Department (WAPDA). Privatization made the military elites more powerful as their contacts were essential and needed in these deals. Inevitably too, there was a massive increase in the number of companies falling under the Fauji Foundation Group (FFG), a military-led business conglomerate.

The last democratic government from 2008-13 did give a ray of hope to the corporate sector, but still long term visionary prospects were not evident in the strategies of the corporate elite in the shape of investments. Although it is ironic that it was the military which always presented itself as a last savior of the people of Pakistan, this institution kept developing its parallel corporate state which today is strong enough to sustain top position in each industry it has ventured into. FFG showed steady progress under all democratic and military regimes, and none of the energy crises or terrorism issues affected its performance. Military elites have the hegemony, not only in the political arena but in the corporate sector too. Military generals have access to the top policy-makers and

have the ability to shape decisions involving the award of special SROs to favored business groups. SROs have been adopted by the ruling prime minister of each regime to favor certain business groups.

In the political context, democratically elected governments kept shifting between the two main parties, Pakistan Muslim League (PML) and Pakistan People’s Party (PPP), and both favored selected business groups. From the time Nawaz Sharif became the leader of PML, there emerged a major political shift as a corporate elite had captured control of the state. Sharif, after all, belonged to one of the biggest business group in Pakistan. He used the practice of democracy to win a senior political post; there were allegations of much use of funds, even profligate expenditure to win votes, during elections (Hasnain, 2008). The corporate elite had helped him with funds for this lavish spending to win the elections.

The alternative people had for a democratic government was of allowing PPP to get elected. Being a party where the Bhutto family had a prominent history and presence, the PPP always followed Bhuttoism to win the elections. Though the PPP did not have the financial backing of the corporate elite, Bhutto’s government had been penalized for corruption involving cases where special favors were granted to business groups. So whether it was a Sharif or Bhutto government, capture of the state by corporate elite was evident, in a direct or indirect form.

On the other hand, the military, ostensibly as the last savior in Pakistan, was able to use corruption issues to incapacitate the democratic institution. This created a system of a continuous shift from civilian to authoritarian regimes in Pakistan, from its early years till 2007. Nevertheless, in last seven years, Pakistan experienced a new shift in power configuration in the political system. As the military elite, which always had intervened in this civilian shifting of power between two parties, allowed a democratically elected
government to complete its transition and elect a new government following elections. This transpired even though the government of Asif Ali Zardari (2008-2013) had numerous allegations of corruption hurled against it. Notwithstanding, the common assumption in Pakistan that a military takeover was imminent, elections took place; interestingly, it was considered one of the most rigged elections. A corporate elite, Nawaz Sharif, again took charge of the country.

This current power configuration yields two important insights. First, the changed strategy of military about participating in the power structure. The reason later became evident: strong pressure from international elites to sustain democracy in this part of world. Moreover, foreign policies of these international elite had a better chance of being implemented under a civilian regime rather than military regime. The military was hindered from acting because of the vested interests of international elites. Second, the recapture of the state by the corporate elite by helping Sharif become the Prime Minister. This provides an intriguing point of closure to the current study. Pakistan is going through a precedent-setting phase of political restructuring where the corporate elite is becoming a major force in politics, either by funding political parties or by capturing control of the state by participating in politics. The impact of this on the corporate sector and the economy would be interesting to see given how civilian governments under their control have been engulfed with allegations of corruption.

**Implication of Power Reconfiguration on Political System**

Contestations among power elites undermined the proper functioning of the political system. Power elite contestations had a bearing on economic development, contributing as well to civil wars, as observed in 1970 in Pakistan which resulted in a creation of Bangladesh.
On the basis of the financial analysis of the big business groups, it can be concluded that the military had a strong tie with the corporate world and its political role had not only allowed it to run a parallel economic system but also provide support for its private enterprises. This support was in the shape of providing economic and political stability during military regimes along with other corporate favors. Military leaders improved their personal financial standing through frequent involvement in the corporate sector. They did this by seeking close working relations with local and foreign businessmen. Apart from military business group (FFG), all other groups faced ups and downs during different regimes. However, only one group, FFG, showed a steady upward performance under all regimes, either civilian or military.

Since military officials were present in public offices, their top bureaucratic positions allowed them to get involved with private companies as well as divert government investments that were mutually beneficial for military officers and private companies. Ghosal concludes that “a new model of military intervention in politics—rule without responsibility and accountability—has emerged in Pakistan and Bangladesh, which obviously has both long- and short-term implications for political third world countries and, thus, requires closer scrutiny and analysis.” Siddiqa-Agha (2007) revealed that the military is entrenched in Pakistan’s corporate sector and key companies are controlled by senior army officials. She also points out that the military elite fosters economic corruption in partnership with civilian elites, such as the civil bureaucracy and entrepreneurial class. It is worth noting that Siddiqa-Agha’s book was banned in Pakistan.

Therefore, democracy in its true sense has never been observed in Pakistan. This has provided for the military’s control over all political systems, even during so-called civilian regimes. Military officers often argue that their intervention in politics is necessary because civilian governments are inefficient, corrupt and incapable of
governing a country and as a result the country is plagued by widespread political, economic and social disorders. In fact, a military intervention or take over becomes easy in the presence of weak, poorly elected civilian-dominated governments.

8.2 Theoretical Contribution

This thesis has a twofold attempt to understand the nature of state business nexuses in Pakistan. First, it attempts to prove that the continuous shifting of regimes between military dictators and democratically elected regimes in Pakistan is due to the presence of multiple power elites who are continuous in collusion or contestation with each other. As a result of these elite collusions and contestations, many new elites emerged in the society which made the power elite grid more complex. Second, one new elite that emerged out of these collusions is the corporate elite. This elite group has used multiple networking and economic rent-seeking activities to develop political connections with the ruling elites of each regime to rise in the corporate world. This study has argued that contestations between elites determine the form that regimes. These regimes then shape the prospects for corporate elites and the business groups that they operate.

So, the theoretical contribution deals with both issues. On the issue of elite collusion, this thesis focuses on theories involving power elites. The classification of power elites in these theories does not fit well when applied in developing countries, which have completely different historical precedence, economic conditions, class structures, ethnic complexions and religious and other cultural patterns. To understand the complexities of power configurations in these countries, one has to understand and study the nature of collusions and contestations between the power elites who exist in these domains of society.
For this purpose, this study selected Pakistan as a case study as it can be considered as the best sample for understanding complex inter-elite relations among a variety of power elites that exist in developing countries, an issue not given much importance in developed countries. Having said that, it is not that the additional power elites discussed here, religious, landlord, bureaucrats and international, are specifically graded as being equal to the other well-acclaimed elites (political, military and corporate). They are very much present in the developed countries too, but they are not considered as core power elites; rather, they are seen as influential interest groups. In a developing country perspective, these groups are so strong that they are able to bring about major policy changes.

The theoretical ideas employed for measuring the impact of elite contestations on the corporate sector were derived from La Porta et al. ’s assessment of state-business nexuses and their implications on corporate ownership and control patterns as well as Faccio’s theorizing of political-business connections. It has been observed that corporate elites in Pakistan kept evolving in two forms. First, they structured their strategies in different ways to expand their business interests. Each business group opted for a unique strategy to sustain its position. For example, Fauji Fertilizer Group (FFG) used its dual identity of also being a part of the military elite to win contracts and managed to emerge as a market leader in each industry it entered into. The advantage it had of being a “double elite,” corporate and military, helped FFG to create a large enterprise under the name of the military. FFG was then used by the military fraternity, especially the officer cadre, to enhance their position within the state.

Another strategy adopted by a business group to expand was by creating family links with each other; this also served as a means to secure connections with other power elites. Through this method, the corporate elite also obtained the benefit of becoming a double elite, securing their position in different domains. This was observed in the links between
the Nishat and Kohinoor Groups. Through marriage ties, the Kohinoor Group secured access to state rents because of the political contacts that Mian Mansha of Nishat Group had with Nawaz Sharif.

Second, the expansion and evolution of business groups had implications on politics under different regimes. Domestic politics was deeply shaped by foreign affairs and the role of international elites in Pakistan. General Ayub provided strong support to newly-emerging industrialists and helped them become corporate elites. This act of developing corporate elites was aided by international affairs which in turn enhanced the economic and political influence of business groups. The Korean War and the spread of Communism in Asia drew America to Pakistan, enhancing General Ayub’s position. Ayub used this opportunity to strengthen the position of the military elite, while foreign aid and investments helped expand the industrial sector. Bhutto’s nationalization policy was also not an act taken in isolation. As the world was moving towards a socialist approach to development, Bhutto’s leftist and populist policy agenda became the reason for winning elections and the country came under the control of a democratic government. Ultimately, it was the corporate elite that fared badly under Bhutto’s government, losing control of their industrial assets. In the 1980s, with the rise of neoliberalism and the active support of the government of Ronald Reagan, Pakistan became the recipient of multiple "structural adjustment plans" from the World Bank. These plans included the active implementation of privatization, a policy elite groups in Pakistan used to serve their own interests. Such abuse of neoliberal policies by power elites was a reason why, in the 1990s, there was a constant change of government. Prime Minister Nawaz Sharif, a dual elite as he was also a member of the corporate elite, favored business groups through privatization, particularly enterprises from Punjab. Asif Ali Zardari, a landlord elite with an active participation in business, had favored the new rich who used their open access to rents to rapidly emerge as a corporate elite. In the decade of the 2000s, Musharraf’s
regime, referred to as a form of “hybridized authoritarianism” (Shah, 2003), had benefited from his close ties with international elites, dealing with changed foreign policies involving the Middle East and the “War on Terror”. The injection of foreign reserves into the corporate world contributed to the development of business groups. The influence of international elites on the direct and indirect development of business groups has been phenomenal, a factor that has also informed political governance of Pakistan.

The results obtained from measuring the performance of these business groups were further assessed to determine the structure of their ownership under different regimes. This is a well discussed topic in the field of corporate finance and political economy as scholars argue that ownership structure determines the intensity to which a firm gets affected by political changes. Studies like those by Eisenberg (1976), Demsetz (1983), Demsetz and Lehn (1985), Shliefer and Vishney (1986) and Morck, et al. (1988) reflect this point with their focus on concentration of ownership and control on the political economy of developed and developing countries. Meanwhile, studies like La Porta et al. (1999) suggest that large corporations from developed and developing countries are typically controlled by big-business families or the state. In Pakistan, this is verified in studies by White (1974), Rashid (1976), Saeed (2013), Papanek (1972), La Porte (1996), Javid and Iqbal (2008) and Ghani et al. (2010).

Since the intention of this study is to measure the effect on the performance of these business groups under different regimes, the data of public listed companies of these groups was analyzed. The study concludes the change in the ownership of the large firms in fact is only a change of ownership from one business family to another business family. Since business families are interconnected with each other via directors’ networking and marriage ties, the transfer of shares of large firms among all business groups are practiced. The change of ownership structure from private to the public only took place once, at the
time of Bhutto’s nationalization policy, though it was later again transformed through
privatization. Briefly put, family businesses remain a major force in the corporate sector.

Scholars like Boubakri et al. (2008), Bertrand et al. (2006), Dinc and Gupta (2007), Dinc
(2005), Magginson and Netter (2001) and D’Souza et al. (2005) analyzed the impact of
political connections on privatized firms considering different aspects. Following their
track, this study analyzed the changes in the performance of the firms which were initially
owned by private industrial business groups, but were later being nationalized and then
again privatized by the subsequent governments. The intention was to measure the
outcome of political connections on large organizations owned by big-business groups
either acquired after privatization or those that have been with the group from the date of
incorporation. This study found that in other developing firms privatized, partially or
fully, have been indirectly controlled by the government through political connections,
i.e. by appointing politicians or bureaucrats at key positions in firms who are loyal to the
ruling elite (Boubarki et al., 2008). For this reason, the firms which were privatized were
not completely independent of government influence. This would later impair the
performance of the firms as the objectives of the firm and government would likely to be
in conflict (Boubakri, 2008). But in the case of Pakistan, political connections cannot be
defined in the same context as Boubakri defined them. The firms privatized in Pakistan
do not have politicians or bureaucrats who hold key positions. However, politicians kept
their stake in the organization, either in the shape of indirect share control, which cannot
be proven, or by developing a close acquaintance with the owners of the business groups.

The incentive for large firms to become politically connected has been a matter of concern
for scholars who were interested in understanding the effects of ownership structure (see
for example, Shliefer and Vishney (1994, 1998)). They emphasized that politicians
extract some of the rents generated by connections. The corporate value of organizations
is enhanced only when the marginal benefits of connections outweigh their marginal cost. Consequently, to evaluate the corporate value of political connections of business firms in Pakistan, this study followed Faccio’s (2006) theory of political-business connections. Faccio did an analysis of multiple countries to find out the common characteristics of countries with widespread political connections. Some of the variables analyzed in this study to evaluate political connections are derived from Faccio (2006), such as large shareholders and officers of firm’s entering politics and corruption. For measuring the effect on financial performance, the variables were derived from Boubakri (2008), such as return-on-assets (ROA) and return-on-equity (ROE). But added to this was the figurative ratio of debt to equity (DTE), applied as an indicator for political connection, in line with Dinc’s (2005) argument about the political influence of government-owned banks in emerging markets. The firm was seen as politically connected if its DTE provided higher rates, which were not supported by the returns on assets and equity of the firm.

The results of business groups’ financial and ownership structure in this study are consistent with the arguments made by Faccio (2006) and Shliefer and Vishney (1994), i.e. that politicians extract rents from companies which they help by providing them access to bank loans. These firms are also favored during privatization and the issuance of licenses for new industrial projects, for example in tax-free zones. Nevertheless, Faccio concluded that firm value increases more if the businessperson is elected prime minister of the country. Although, in case of Pakistan, the firm value increases if the elected prime minister is a close acquaintance of the businessmen as the politicians do not remain the CEO of any big organizations.
8.3 Empirical Contribution

The second fold contribution to the literature of this study is empirical in nature. The first two analytical chapters, i.e. Chapters 4 and 5, provided arguments to support the theoretical thesis statement.

A qualitative analysis is provided of key historical events that offer insights into the role and contribution of each elite group under different regimes that have held power. In-depth case studies of Pakistan’s leading enterprises were provided in this study. Complementing these case studies are quantitative financial and statistical analyses of the performance of publicly-listed companies of these business groups. This research provides extensive data in the form of the change in the financial performance of business groups following their creation of political connections with elites in control of the state. This mode of analysis helped identify the business groups favored by each regime, through the state’s ability to deploy bank loans as well as economic rents to key corporate figures.

Based on this theory, the empirical data of the listed companies of seven business groups was studied. Based on those results, the empirical contribution in the field by this study is as follows:

1. Regimes are not industry-focused, but business group focused. Therefore, business groups after 1970s do not remain industry-based or area-based but are diversified in many sectors/industries. This indicates that corporate elites are no longer long-term in their focus of their business ventures. They diversified their investments to minimize risk and therefore follow short-term strategies.

2. Even when there is a civilian government, the military dominates political decision-making. The military appeared to share power with political leaders when a civilian government held office, but was not ready to transfer it
completely. This was to safeguard their own vested interest. Nonetheless, it would not be right to say that the military is the key power elite of the country and all others are subservient to them. They certainly are the most powerful among the power elites, but they also are dependent on and affected by the demands of international elites. Meanwhile, international elite influence are in turn very much influenced by the other local elites who control the major opinion pool of the masses.

3. Business groups developed allies with each other to sustain their position in the corporate world through interlocking directorships. The directors of the Nishat Group are directors of Kohinoor Group. Packages directors are on the board of a few companies of the Dawood Group. Directors of Jang Group are controlling directors of firms in the JS Group.

4. The key business groups which started small but expanded later (Packages and Nishat Groups) and the one which sustained its position from the start as big business group, i.e. Habib Group were those that adopted the strategy of joint-ventures with multinationals; these groups established business branches internationally. In this way they countered the business risks associated with doing business locally and being dependent on political regimes and their policies.

5. Pakistan, being an agrarian economy, has always been considered as the land of feudal lords. Since in all elections the majority of the seats are controlled by landlords, it was presumed that these elites were the most influential. For this reason, political leaders also usually belonged to landlord families. Furthermore, by studying the complexities of power reconfigurations, it becomes evident that landlord elites are quite dependent on bureaucrat and military elites for their survival. These intra elite contestations had started from the initial years when
bureaucrats controlled political posts and later when the military moved in, ostensibly to solve the civil unrest.

6. The geo-strategic position of the country is such that international elites have emerged as an influential force. These elites concerned and sensitive to domestic political and social matters, specifically issues pertaining to what they see as radical Islam and terrorism.

7. The expansion strategy adopted by new rich groups and old business groups are different. FFG uses its military backing to expand and the JS Group grew by entering a completely new industry, one which had not been explored by any of the old established business groups. Old business groups are still using traditional rent-seeking methods and personal contacts with the ruling elite to expand, evident in the case of the Kohinoor, Nishat and Packages Groups. As yet, the new rich have not have been involved in business long enough to prove the authenticity of their mode of corporate development.

8.4 Recommendations

1. The study will benefit policy makers by reviewing the power imbalance between the state and key institutions. The key issue that has been raised involves the accumulation of wealth in the hands of a few, contributing to inequalities that can contribute to social unrest in a country already deeply mired in numerous security problems.

2. The study provides insights into the role of regulatory institutions and the need to ensure they have the autonomy to act independently. Such autonomy is also imperative to ensure just distribution of wealth.
3 Business groups are one vital source, which can be used by policy-makers, to ensure long-term growth and development, provided policies do not get effected of political change and uncertainty.

4 The study suggests that the military, civil bureaucracy, politicians and business people are inherently capable of making things happen. So the strong and equitable long-term collusions among them could lead the country out of its current economic and security threats.

5 Policy-makers, like regulators, should be given a considerable degree of autonomy in the making of public policies and setting societal goals and priorities.

6 Decentralization, introduced following the fourth military regime, had enhanced the participation of all elite groups in pursuing goals involving protecting society. However, this issue needs more time to be properly established.

7 The SRO (Statutory Regulatory Orders) culture has, according to an estimate, caused some Rs650 billion worth tax exemptions in the country. The result is that the tax-to-GDP ratio in Pakistan remains around nine per cent, the lowest in the world, with the number of tax-payers not exceeding 0.8 million. Inevitably, the tax revenue generates is not very significant, leading to dependence on external borrowings, grants and aid. The SROs have also enabled many inefficient entrepreneurs to thrive at the expense of innocent consumers.

8 The government needs to re-think its industrial support policies for the business sector. This would encourage big business groups to invest in long-term projects. Policies to facilitate new entrants in the manufacturing sector are also imperative.
8.5 Scope of Future Research

This study set out to trace the changes in business group performance following a regime change. However, the number business groups studied was small with a focus on the largest enterprises. This study can be extended by doing a specific industry analysis, as well as subjecting the number of private limited companies of these groups to in-depth research. A comparative analysis of the performance of these business groups in all industries can also be done. Such studies would provide further insights into how political favoritism functions, including within specific industries.

Since the political scenario of Pakistan kept changing with each new government, future researchers could measure other outcomes on business groups, including how this had a bearing on the quality of products produced, their investments in R&D to move up the technology ladder and their ability to compete effectively. This research provides insight on the past eight regimes, but the current regime was not assessed since it is still in government. If the current government completes its tenure, than it will be for the first time that in Pakistan democracy has remained in place for a period of ten years. One other key factor that can be assessed is the extent to which the military elite is essential in this political environment. This study can be further expanded by doing comparative analyses with other countries of South Asia such as Bangladesh and India. For example, a comparative analysis can be done on this topic; in this regard, the work of Menon and Nigam (2007) on power and contestations in India is relevant. Through such comparative work, one can observe, historically, similarities and differences in power strategies of South Asian countries. This could contribute to a better understanding of the links between entrepreneurial capacity and state dynamism, a factor that can facilitate economic development in South Asia.
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### APPENDIX A: YEARLY RATIOS OF LISTED COMPANIES OF SIX BUJINESS GROUPS

<table>
<thead>
<tr>
<th>Year</th>
<th>Kohinoor</th>
<th>DAWOOD</th>
<th>PACKAGES</th>
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Note: The table continues with data for subsequent years.
APPENDIX B: BRIEF DESCRIPTION OF THE LISTED COMPANIES OF BUSINESS GROUPS

1) NISHAT GROUP:

Nishat Mills limited commenced its business as partnership in 1951. Later by 1959 it was incorporated as private limited company. Its first listing in Karachi stock exchange occurred in 1961. By 1996, Nishat Mills acquired the other business units, Nishat tek limited and Nishat fabrics, controlled by themselves under Nishat Mills’s flag. Same as by 2005, the one other private limited business unit, Umar Fabrics, was acquired by Nishat Mills and it further expanded its domain by including Nishat Apparels into it by 2008. Mansha’s family is playing a leading role in Nishat’s expansion. Naz Mansha wife of Mian Muhammad Mansha supervises eight factories that handle every phase of textiles -- from spinning and weaving to dyeing and sewing.

D G Khan Cement was incorporated as a private limited company in 1978 under the management control of State Cement Corporation of Pakistan Limited (SSCP). The Company commenced its operations in 1986 with 2,000 tons per day (TPD) clinker. The Company was acquired by Nishat Group in 1992 under the privatization initiative of the Federal Government and listed on all three stock exchanges of the country the same year.

Within one year of takeover by Nishat group, the production capacity of the unit has been increased from 2000 ton per day (tpd) to 2200 tpd which today has increased to 14000 tpd. Mian Muhammad Mansha had to face lot of violence and security issues at the time of taking over DG Khan Cement factory due to its location and have escaped from gunshot while visiting the factory. Cement industry of Pakistan experienced growth of 15 % due to price war in the year 2010. The share of DGKC in FY 2013 was 14.5% reportedly the second largest in cement industry with highest-ever after tax profit of Rs 5.5 billion.

AES Lal Pir and Pak Gen are power plants located in Muzaffargarh and were established in late 1990 under 1994IPP Policy. The generation capacity of these two units is 727 MW. The technology used is state of the art steam turbine technology. The acquired plants are managed, controlled and run by an excellent and dedicated team of professionals. With this acquisition Nishat Group has become a major energy provider within Pakistan, generating over 1200 MWexcluding Captive Power and playing a significant role in supplying much needed electricity to WAPDA andPEPCO.

MCB:

MCB Bank Limited (formerly Muslim Commercial Bank) previously named as a (Manjoo Co-operative Bank) was incorporated by the Adamjee Group on July 9, 1947, under the Indian Companies Act, VII of 1913 as a limited company. The bank was established to provide banking facilities to the business community of South Asia. The bank was nationalized in 1974 during the government of Zulfikar Ali Bhutto. This was the first bank to be privatized in 1991 and the bank was purchased by a consortium of Pakistani corporate groups led by Nishat Group. As of June 2008, the Nishat Group owns a majority stake in the bank. MCB is Pakistan’s fourth largest bank by assets having an
asset base of US$7 billion as at quarter 1, 2012, and the largest by market capitalization having a market capitalization recorded at $1.2 billion at year end 2011

Adamjee Insurance Company Limited (AICL) is a general insurance giant, incorporated as a Public Limited Company on September 28, 1960. AICL, one of the leading insurance companies in Pakistan, has a regional presence in United Arab Emirates (UAE) and maintains its standing through an unwavering commitment to its corporate philosophy. AICL’s competitive competency is achieved by combinations of voluminous assets, notable paid-up capital, sizable reserves, a varied portfolio and consequently, remarkable growth rates. AICL is listed with all three stock exchanges of Pakistan, establishing its credibility. The Company retains a strong regional presence in the UAE (Dubai and Abu Dhabi).

2) Kohinoor Group:

Kohinoor textile mills

The Saigols set up the first major textile unit - The Kohinoor Textile Mills under the umbrella of Kohinoor Industries Limited in 1953 at Rawalpindi and is one of the oldest companies of Pakistan with over 50 years’ experience in textile manufacturing. Its operational activities have been closed down with effect from October 12, 2007 and production machinery was disposed of. In its meeting held on April 30, 2008, the Company's Board of Directors has decided to close down the business due to the increase in prices of raw materials and other inputs without increase in yarn sales price in the local and international market. Laboratories in Pakistan for testing of textile raw materials, other inputs and yarn.

Pak Elektron Limited (PEL)

In 1978, the Saigol Group of Companies purchased major shares of Pak Elektron Limited. At that juncture, the company was only manufacturing transformers and switchgears. With the Saigols in management, PEL started expanding its product range by entering into Air Conditioner manufacturing. Pak Elektron Limited is a Pakistan-based company. The Company is engaged in the manufacture of electrical goods. It provides a range of electrical equipment and home appliances. The Company operates its businesses in two divisions: Power Division and Appliance division. The Power Division provides products, such as Distribution Transformers, Power Transformers, Energy Meters, Switchgears and EPC contracting. The Appliance division provides products, such as Washing Machine, Microwave Oven, Air Conditioner, Refrigerator and Deep Freezer.

Saritow spinning mills & Azam Textile Mills

In 1987, the Saritow Spinning Mills and Azam Textile Mills were established under the banner of Saigol Group of Companies. Saritow Spinning Mills is a spinning unit with 25,440 spindles capacity. Facilitated with the most modern and efficient Japanese and European machinery, its knitted yarn is renowned in the Far East and Europe for its fine quality. Azam Textile Mills is reputed for its carded and combed yarn, which is quite popular for premier knitting and weaving.

Kohinoor Power Company Limited
In 1991, the first power unit commissioned in Pakistan, in the Private sector, was Kohinoor Power Company Limited. Its present production capacity is 15 MW. Kohinoor Energy Limited is a Pakistan-based company engaged in the electric utilities industry. The Company’s principal activities consists of owning, operating, generating and maintaining of a furnace oil power station with a net capacity of approximately 124 megawatts (MW) in Lahore, and to sell the electricity to its sole customer, the Pakistan Water and Power Development Authority (WAPDA). Its main equipment at power complex includes around three transformers, eight diesel generators and one combined cycle heat recovery system that delivers an output of approximately eight megawatts (MW).

Kohinoor Energy Limited

In 1995, another power unit, Kohinoor Energy Limited, was established. Kohinoor Power Limited is a 120 MW power plant located on the outskirts of the city of Lahore. This project has an annual turnover of $80 million.

Kohinoor Mills Limited is a Pakistan-based company engaged in the textiles industry. The Company is involved in the business of textile manufacturing, including weaving, knitting, bleaching, dyeing, stitching, buying, selling and dealing in yarn, cloth and fabrics made from raw cotton and synthetic fiber. It is also involved in the generation and supply of electricity. The Company operates in three business segments: weaving segment, which produces various greige fabrics using yarn; dyeing segment, which converts greige into dyed fabrics, and power generation segment, which generates and distributes power using gas, oil and stream.

Maple Leaf Cement is the third largest cement factory in Pakistan. It was set up in 1956 as a joint collaboration between the West Pakistan Industrial Development Corporation and the government of Canada. It is strategically located at Daudkhel (District Mianwali) in Northern Pakistan, which is an area rich in raw materials required for the production of cement. Kohinoor acquired the ownership and management of Maple Leaf Cement under the privatization policy of the government of Pakistan in 1992. Presently Kohinoor Textile Mills is the holding company for Maple Leaf cement.

Jauharabad Sugar Mills Ltd, formerly Kohinoor Sugar Mills Limited, is a Pakistan-based company, engaged in the manufacturing and sale of sugar and its by-products. The Company manufactures white refined sugar, which consists of white refined sugar, color and grain packed in single woven polypropylene bags of net weight 50 Kilograms each. The Company is located in Jauharabad, District Khushab in the Punjab province. During the fiscal year ended September 30, 2012(fiscal 2012), the Company crushed 427,690 metric tons of sugarcane and produced 35,646 metric tons of sugar in 160 days, out of its maximum installed cane crushing capacity of 6,000 metric tons per day.
3) **DAWOOD GROUP:**

**Cyan Limited**, formerly Central Insurance Company Limited, is a Pakistan-based investment company. Before November 30, 2011, the Company was engaged in general insurance services in the sphere of fire, marine, motor and miscellaneous. On November 30, 2011, the Company ceased to be an insurance company and continues to operate with the purpose of undertaking investments in securities and financial instruments. On the same date, it also changed its name to Cyan Limited from Central Insurance Company Limited. As of December 31, 2011, the chemicals sector contributed to 50% of the Company's sector wise portfolio, while investment in Engro Corporation amounted to 34.02% of the Company's equity investment portfolio.

**Dawood Hercules Corporation Limited** is a Pakistan-based investment holding company. Through its subsidiary and associated companies, the Company is engaged in information technology and financial services to food, fertilizer, chemicals manufacturing and storage, and energy. The Company generates its revenue through the sale of fertilizer products, sold entirely in Pakistan. The Company’s subsidiary DH Fertilizers Limited, is engaged in the business of production, purchase and sale of fertilizers, and The Hub Power Company Limited develops, owns, operates and maintains power stations.

**Engro Polymer & Chemicals Limited**, formerly Engro Polymer and Chemicals Limited (EPCL) is a Pakistan-based company engaged in the commodity chemicals industry. The Company is engaged in manufacturing, marketing and selling Polyvinyl Chloride (PVC), PVC compounds, caustic soda and related chemicals. It is also active in the supply of surplus power generated from its power plants to Engro Fertilizers Limited. It operates through three segments: Poly Vinyl Chloride (PVC) and allied chemicals; Caustic soda and allied chemicals; and Power supplies. Its designed annual production capacity is 150 kilo tons of PVC, 127 tons kilo tons of Ethylene Di Chloride (EDC), 106 kilo tons of caustic soda, 220 kilo tons of Vinyl Chloride Monomer (VCM) and 64 megawatts of power electricity. The Company’s wholly owned subsidiary is Engro Polymer Trading (Private) Limited.

**Engro Corporation Limited** is a Pakistan-based holding company. The Company’s business portfolio consists of 6 business; chemical fertilizers, PVC resin, a bulk liquid chemical terminal, foods, power generation and commodity trade. The Company is engaged in managing investments in subsidiary companies and joint venture, engaged in business portfolio sectors like chemical fertilizers, PVC resin, a bulk liquid chemical terminal, foods, power generation and commodity trade. The Company operates through five segments; Fertilizer, which manufactures, purchases and markets fertilizers; Polymer, which manufactures, markets and sells PVC, PVC compounds, caustic soda and related chemicals; Food, which manufactures, processes and sells dairy and other food products; Power, which owns and operates Engro Powergen Qadirpur Limited, a 220 megawatt power plant, and Other segments.

EnGro Corporation Limited (EnGro) is an investment holding company. The Company is engaged in the principal activity of manufacture and sale of cement and building materials and specialty polymers. EnGro operates in three segments: Cement and building materials, Specialty polymer and Investments. The Cement and building materials segment manufactures and sells cement, ready-mix concrete and building materials. The Specialty polymer segment manufactures and sells thermosetting synthetic resin and plastic materials. The Investments segment is engaged the trading of equity securities and holding of investments in venture capital funds and equity securities. In October 2013,
Engro Corporation Ltd incorporated a 80%-owned subsidiary namely EnGro (Asia) Private Limited (EAPL) in Singapore. In May 2014, the Company incorporated Shanghai EverGro Commercial Co, Ltd.

Engro Fertilizers Limited is a fertilizer manufacturing and marketing company with products that focus on balanced crop nutrition and increased yield. The Company markets primary and secondary fertilizers like Engro Urea, Engro DAP, Engro Zorawar, Engro Zarkhez and Zingro. The Company holds nationwide production and marketing infrastructure and produces fertilizer brands for local cultivation needs and demand. The Company is an importer and seller of Phosphate products, which are marketed across Pakistan as phosphatic fertilizers. The Company sells phosphate fertilizers for balanced fertility and improved farm yields. The Company is a wholly owned subsidiary of Engro Corporation Limited.

Dawood Lawrencepur Limited has emerged from the amalgamation of Lawrencepur Woolen and Textile Mills Limited, Dawood Cotton Mills Limited, Burewala Textile Mills Limited and Dilon Limited. For the past half a century these companies embodied tradition and quality – common threads that now bind them together for the collective benefit of all customers, shareholders, employees and other stakeholders.

The Company is principally engaged in the manufacture and sale of yarns and fabrics made from natural and artificial fibers in various blends. The Company offers numerous fabric and clothing product lines under the well known “Lawrencepur” umbrella brand.

4) PACKAGES GROUP

In 1968 Packages Limited was established as pulp and paper Mill with capacity of 24000 ton which today is working with the capacity of ........ later packages diversified its production to tissue paper in 1981 and in 1986 expanded further towards food industry.

Packages Limited is engaged in the manufacture and sale of paper, paperboard, packaging materials and tissue products. The Company is engaged in packaging, paper and paperboard, inks and construction. The Company operates in four segments: Packaging, Consumer Products Division, Ink and General & Others. The Packaging division comprises of three business units based on packaging material categories, namely Folding Cartons, Flexible Packaging and Corrugated Boxes. The Consumer Products division offers products such as facial tissue, toilet tissue, paper towel, napkins, recycled tissue paper, party packs and jumbo-roll, N-fold. Ink is engaged in the manufacturing and marketing of industrial ink products. The General & Others is engaged in workshops and other general business. The Company’s subsidiaries include Packages Lanka (Private) Limited, DIC Pakistan Limited, Packages Construction (Private) Limited and Bulleh Shah Packaging (Private) Limited.

Nestle Pakistan Limited is a Pakistan-based company engaged in manufacturing, processing and sale of food products, such as dairy, confectionery, culinary, beverages, infant nutrition and drinking water. The Company operates in two segments: Milk and nutrition products, which include milk based products and cereals; and Beverages, which comprise juices and water. Nestle Pakistan operates the biggest milk collection operation in Pakistan. The Company's products are traded under brands, such as nestle Milkpak, Nesvita, Nido, Everyday, Milkpak cream, Nestle Raita and Nestle Actiplus. Nestle Pakistan collects milk from an estimated 190,000 farmers spread over 145,000 square kilometers in the province of Punjab and Sindh. Nestle Pakistan is the Food & Beverages
Company in Pakistan with key focus on Nutrition, Health and Wellness and reaching the remotest of locations throughout Pakistan to serve the consumers.

Mitchell's Fruit Farms Limited is a Pakistan-based food company. The Company is principally engaged in manufacture and sale of various Farm and Confectionery products. The Company’s Grocery Product line includes Jam, Jellies and Marmalade, Squashes and Syrups, Ketchup and Sauces, Canned Food, Fruit Drinks, Pickles and Vinegar and Bottled Water. The Company’s Confectionery Product line includes Chocolates and Sugar Confectionery. The Company caters to the demands of clients such as the Pakistan International Airlines (PIA), five star hotels and clubs, utility stores corporation, canteen stores department, main stores and restaurants.

Lever Brothers Pakistan Limited is a Pakistan-based company. The Company is engaged in the manufacture and marketing of home and personal care products, beverages, ice cream and spreads. The Company is a subsidiary of Unilever Overseas Holdings Limited, UK. Packages group had shares and control of the local management from 1978 to 2002. So therefore in the analysis, these years are included. Later on the company was renamed from Lever Broothers Pakistan Limited to Unilever Pakistan Limited on September 2002. And now the major share are controlled by Manoo group.


IGI Insurance Limited is a Pakistan-based non-life insurance company. The Company operates in four segments: Fire, Marine, Motor and Miscellaneous. It is the flagship organization of the Packages Group, was established in 1953. It is listed on the Karachi and Lahore Stock Exchanges and is presently one of the leading quoted insurance companies of Pakistan with its AA rating for the last 13 years from PACRA. IGI has a market value of assets over PKR 13.5 billion as of December 2013. In April 2014, IGI Insurance Ltd acquired 69.677% interest in American Life Insurance Co (Pakistan) Ltd. Now with the acquisition of MetLife Alico Pakistan, IGI has re-entered into Life insurance under the banner of IGI Life Insurance Limited. IGI Life combines over 200 years of collective heritage of Packages Group and MetLife.

Sanofi-Aventis Pakistan limited (Sanofi) is engaged in the business of manufacturing and selling of pharmaceutical and consumer products. The principal area of business of Sanofi is ethical pharmaceuticals. The Company’s core therapeutic areas include cardiovascular disease and thrombosis; diseases of the central nervous system; oncology; internal medicine; and metabolic disorders. Sanofi markets Amaryl, Clexane, Eloxatin, Epilim, Lantus, Nasacort, Stilnox, Telfast, Taxotere and Tritace, among others.

Tri-Pack Films Limited (Tri-Pack) – a joint venture between Mitsubishi Corporation of Japan and Packages Limited of Pakistan was incorporated as a Public Limited Company on April 29, 1993 to produce Biaxially Orientated Polypropylene (BOPP) Films in Pakistan. Its head office is based in Karachi and regional offices are located in Karachi, Lahore and Hattar where focus is to provide customers with dependable, economical and quality films backed by strong customer services. Tri-Pack is indeed proud of making distinctive contributions to the packaging industry in Pakistan.
5) FAUJI FOUNDATION GROUP:

Fauji Fertilizer Company Limited engaged in manufacturing, purchasing and marketing of fertilizers and chemicals, including investment in other fertilizer, chemical, other manufacturing and energy generation operations. The Company operates in two segments: fertilizer and power generation.

Its product portfolio includes urea (nitrogen), DAP (phosphate), and SOP (potash). It produces sona urea in prilled, as well as granular forms. The Company’s SOP contains 50% K2O in addition to 18% sulfur, which is also an important nutrient especially for oil seed crops and it also has an ameliorating effect on salt-affected soils. The Company’s subsidiary companies include Fauji Fertilizer Bin Qasim and Limited and FFC Energy Limited. In October 2013, Fauji Fertiliser Company Limited acquired Al-Hamd Foods from Al-Hamd Group.

Fauji Fertilizer Bin Qasim Ltd is a Pakistan-based company. The Company manufactures Granular Urea and Di-Ammonium Phosphate (DAP) fertilizers. The Company’s products include Sona Urea and Sona DAP. As of December 31, 2013, the Company produced 744,436 metric tonness of DAP and 4.8 million metric tonnes of Urea. The Company entered into a joint venture with Cherifien des Phosphates, Morocco, for its uninterrupted supply of Phosphoric Acid, and was named as Pakistan Maroc Phosphore S.A costing 2030 million Moroccan Dirhams ($250 million) was formed at Morocco. Plant is designed to produce 375,000 metric tonnes per year of Phosphorous acid. The Company has incorporated two subsidiaries i.e. Fauji Meat Limited and Fauji Foods Limited to explore and benefit from the opportunities in Meat and Dairy Sectors.

Fauji Cement Company Limited is a Pakistan-based company. The Company is engaged in the manufacture and sale of ordinary portland cement. The Company operates a cement plant at Jhang Bahtar, Tehsil Fateh Jang, and District Attock in the province of Punjab. As of June 30, 2012, the Company had installed capacity to produce 2,926,980 metric tons of cement. During the fiscal year ended June 30, 2012, the Company produced 2,010,006 metric tons of cement. On December 5, 2012, the Company announced that Fauji Foundation has sold shares in of the Company. After the sale, Fauji Foundation reduced its holding in the Company from 65.634% to 40.482%.

Askari Bank Limited is a Pakistan-based commercial banking company. It operates segments include Corporate finance, which includes corporate and investment banking activities, such as mergers and acquisitions, underwriting, privatization and securitization, among others; Trading and Sales, which includes the Bank's treasury and money market activities; Retail Banking, which provides services to small borrowers and include loans, deposits and other transactions with retail customers and credit card business; Commercial banking segment provides services related to project finance, export finance, trade finance, leasing, lending, guarantees, bills of exchange and deposits from corporate customers; Payment and settlement, which includes income from payments and collections, funds transfer, clearing and settlement; Agency services, which include income from rent of lockers; and Subordinated loans, which represents Term Finance Certificates issued (Source : ARS).

Askari General Insurance Company Limited is a Pakistan-based company which is engaged in the business of finance, banking and production of consumer goods and services. The Company provides non-life insurance to businesses consisting of fire, marine, motor, health and miscellaneous. The Company’s products and services include

**Mari Petroleum Company Limited** is a Pakistan-based company. The Company is engaged in exploration, development and Production of hydrocarbon potentials, such as natural gas, crude oil, condensate and liquid petroleum gas (LPG). The Company’s Mari gas field is located at Daharki, District Ghotki, and Sindh. The Company’s exploration portfolio includes Ziarat, Hanna, Harnai, Sukkur, Sujawal, Mari, Peshawar, Khetvaro, Ghauri and Zarghun south. The Company operates in seven exploration licenses and has working interest in seven blocks with Oil and Gas Development Company Limited (OGDCL) and Paradeep Phosphates Limited (PPL) in Pakistan. In addition, the Company has 25% working interest in an overseas venture (Company website).

6) **JAHANGIR SIDDIQUE GROUP:**

**JS Investments Limited (JSIL)** is a Pakistan-based private sector asset management company. The Company is engaged in the provision of asset management and investment advisory services. It has assets spread across various mutual funds, pension funds and separately managed accounts. The Company’s products and services include mutual funds, pension funds and investment advisory and separately managed accounts (SMA). Its mutual funds provide a range of products under a single Asset Management Company, which include funds for every investment strategy and risk profile. Its Pension funds include Pension Savings Fund (JS PSF) and JS Islamic Pension Savings Fund (JS IPSF). The Company together with Standard Chartered and EFU Life provides JS PSF, which helps in planning retirement solutions. SMA provides services namely preferential brokerage rates and no sales load on investment in mutual funds.

**JS Global Capital Limited** is a Pakistan-based company engaged in the financial service industry. The principal activities of the Company are share brokerage, money market, foreign exchange (forex) and commodity brokerage, as well as the provision of advisory and consultancy services. Other activities include investment in a mix of listed and unlisted equity and debt securities and reverse repurchase transactions. The Company operates its business through three segments: brokerage segment, which consists of equity, forex and money market brokerage, as well as commodity and online trading brokerage, along with related services; investment and treasury segment, which consists of capital market, money market and treasury functions, and earns profit on bank deposit, term deposit receipts, capital gains on equity and debt securities, mark-up income on term finance certificates and others, and other operations segment, which relates to advisory and consultancy function. (Source: ARS).

**JS Bank Limited** is a scheduled bank, engaged in commercial banking and related services. The Bank is a subsidiary of Jahangir Siddiqui & Co. Ltd. The Company’s segment includes corporate finance, Trading and sales, Retail banking, Commercial banking and Payment and settlement. Corporate finance includes investment banking activities, such as mergers and acquisitions, underwriting, privatization, securitization, Initial Public Offers (IPOs) and secondary private placements. Trading and sales segment undertakes the Bank’s treasury, money market and capital market activities. Retail banking provides services to small borrowers that is consumers, small and medium enterprises (SMEs) and borrowers’ and agricultural sector. Commercial banking includes loans, deposits and other transactions with corporate customers. Payment and settlement
includes activities such as payment and collections, fund transfer, clearing and settlement (Source: ARS).

**BankIslami Pakistan Limited** is a Pakistan-based Islamic commercial bank. The Bank has approximately 201 branches, including 89 sub branches. The Bank operates through four segments: Trading and sales, Retail banking, Commercial banking and Support Centre. The Trading and sales segment includes equity, foreign exchanges, commodities, credit, funding, own position securities, placements and Islamic financing and related assets. The Retail banking segment includes retail Islamic financing and related assets, deposits and banking services offered to its retail customers and small and medium enterprises. The Commercial banking segment includes project finance, export finance, trade finance, Ijarah, guarantees and bills of exchange relating to its corporate customers. The Support Centre segment includes the assets and liabilities relating to support functions at head office and their related income and expenses (ARS).

**Capital Assets Leasing Corporation Limited** is a Pakistan-based company engaged in the leasing business. The company is also engaged in renting out of vehicles through its holding company, Optimus Limited. Optimus Limited holds 83.99% of the shareholding in the company.
## APPENDIX C: GROUP OWNED TOTAL LISTED COMPANIES IN PAKISTAN

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<th>Company Name</th>
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