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**State, class, and industrial policy in Pakistan (1947–1988)**

**Khattak, Saba Gul, Ph.D.**

**University of Hawaii, 1991**

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STATE, CLASS, AND INDUSTRIAL POLICY IN PAKISTAN (1947-1988)

A DISSERTATION SUBMITTED TO THE GRADUATE DIVISION OF THE  
UNIVERSITY OF HAWAI'I IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF

DOCTOR OF PHILOSOPHY

IN

POLITICAL SCIENCE

DECEMBER 1991

By

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## ACKNOWLEDGMENTS

My deepest gratitude and appreciation go to my advisor and dissertation committee chairperson, Professor Harry Friedman. Harry gave me the confidence to venture into research areas unfamiliar to me. His trust in my abilities, and his gentle guidance made the task of dissertation writing easier.

Equally important has been the constant advice and interest of Professor Robert Stauffer, who read every word of my dissertation meticulously, and always reminded me of the larger picture--the world-economy. Bob also returned my drafts with his detailed comments much earlier than I expected! Professor Deane Neubauer's invaluable comments made me reconsider my ideas, sharpen them, and rewrite them more explicitly. Professor Hagen Koo's course on the sociology of developing countries spurred me to question industrial policy in Pakistan. His emphasis on language helped tighten my theoretical framework. Professor Michael Shapiro's courses and points of view opened new ways of seeing and questioning. Dr. Bruce Koppel provided me encouragement by giving freely of his time.

I would also like to thank Professor Manfred Henningson for making his classes challenging and instructive. His influence on my thinking can be seen in the decisions I have had to make. From him I have learned the importance of taking a stand, and having hope.

Professor Hamza Alavi's writings provided the fundamental guidelines for considering the case of Pakistan; equally important has been his help with providing me contacts in Pakistan during field study.

The East-West Center gave me a generous grant to pursue a Ph.D. at the Department of Political Science, University of Hawaii. Without the grant and monetary support for field study from the International Relations Program, this dissertation would never have been written. I would especially like to thank Dr. Charles Morrison, Coordinator of the International Relations Program, for his supportive ways, for his pleasant sense of humor, and advice on how to avoid tension during field study.

I would like to acknowledge all my friends at the East-West Center for providing me emotional sustenance. Their interest in my research, and good-humored jokes made writing the dissertation pleasant. In particular I would like to thank Lubna for sharing hopes and plans for the future, and for always being considerate, dependable, and strong.

I also owe a debt of love to my three brothers, Asad, Asim, and Aemal. Their affection, jokes and unspoken understanding is something I have faith in and rely upon. Every member of my family has had an important role during my stay in Hawaii through their letters. Some of them I will not see again, but their memory will always stay with me. My father, I hope would have been proud of me had he been here.

Last, I would like to dedicate this dissertation to the two pillars of my life--my mother, Sultana Khattak, and my uncle, Abbas Khattak. My mother, for her faith in me and for taking pains with me from my earliest schooldays. And my uncle, whose constant interest in my personal and professional development always makes me aspire for the best.

## ABSTRACT

This dissertation explains the nature of politics in Pakistan by investigating the juxtaposition of class and state, and how it affects the nature of economic development. An analysis of Pakistan's industrial policy serves as a vehicle for studying the relationship.

The main body of the dissertation emerges as a comparative study of the Pakistani state in terms of a strong/weak state in particular contexts. Within this approach the nature of industrial policy is seen as a specific outcome of (1) state dependency and state power; (2) strengths and needs of the dominant classes; and (3) a type of economic development that emerges. Thus, public policies are influenced by class and state relations which, in turn, are mediated by the conditions and consequences of economic development.

This study traces the developments in Pakistan's class structure and the corresponding changes in the nature of the Pakistani state. It asserts that the interaction among state, class, and development dynamics creates conditions whereby subordinate classes can break out of their position and impact politics, policy, and the nature and role of the state. The role of other states and non-state entities is equally important as demonstrated in Pakistan by the congruence of World Bank "advice" with the conservative policies promoted under the impact of Middle Eastern financial support. The following pages provide concrete analysis of how Pakistani politics and Pakistan's course of economic development have been shaped by the dialectical relationship among class, state, and economic development.

Finally, this study of Pakistan's industrial policy asserts that the choice of Import Substitution Industrialization or Export Oriented Industrialization strategy by itself cannot be the panacea to Pakistan's problems. In Pakistan, a strong state (distinctly and qualitatively different from an authoritarian state) is needed to reflect and uphold subordinate class interests.

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## CHAPTER I

### INTRODUCTION

This dissertation is the result of many aspirations, chief among them a preoccupation with state theory and the systematic process of continuous maldevelopment in Pakistan, reproduced at different levels by various institutions (be they state apparatuses or international bureaucracies). This process is possible due to the existence and maintenance of certain material conditions which this dissertation examines.

This dissertation was also inspired by the need to conduct research on industrial policy in Pakistan, an area largely ignored by academics since the secession of Bangladesh in 1971. Industrial policy in Pakistan is both under-researched and under-theorized. The scarcity of relevant, systematic and methodical literature is particularly problematic as much of the literature was published well before the changes that have taken place in the last two decades. Indeed, only a handful of research papers and three books<sup>1</sup> specifically on industrial policy in Pakistan have been published over the last decade and a half. Aside from these publications, the official

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<sup>1</sup>Rashid Amjad, Industrial Concentration and Economic Power in Pakistan (Lahore: The Punjab University Press, 1974); White, Industrial Concentration and Economic Power in Pakistan (Princeton: Princeton University Press, 1974); Stanley A. Kochanek, Interest Groups and Development, Business and Politics in Pakistan (Delhi: Oxford University Press, 1983).

analysis of industrial policy usually appears in Pakistan's Five-Year Plans. The Pakistan Chambers of Commerce also published a useful compilation of policy recommendations in 1979.

Almost all the studies carried out within the country about the subject by institutions like the Pakistan Institute for Development Economics (PIDE) have been in the tradition of the Harvard Advisory Group (HAG). Economics as a discipline still tends to be conservative, while conventional economists--the authors of most of Pakistan's remarkably ill-chosen and ill-fated policies--continue to believe in paradigms that are demonstrably in theory obsolete, and defunct in practice. Economic literature available on Pakistan is particularly inadequate in that it tends to deal only with macro level economic outcomes signified in terms of growth rates, per capita income, rates of growth in industry and agriculture, etc. This literature has fundamentally ignored any real understanding of the effective distribution of economic gains from economic development. As such we are faced with an urgent need to reassess Pakistan's economic policies from the perspectives and insights of political economy rather than through the conventional preoccupation of economics.

#### Specific Research Aims

The main focus of this work concerns the nature of the state and dominant class segments, and the extent of the latter's influence upon policy in conjunction with the state, within the limitations imposed by the world-economy. The dissertation is thus a description of a phenomenon or a process in which structural connections and inter-connections are explained. An attempt is made to explain the nature

of politics in Pakistan by investigating the juxtaposition of class and state as it affects the nature of economic development in Pakistan. There are three main sets of "actors" in this relationship--class, state, and development--all of which influence one another in a continuous process.

The main body of the dissertation emerges as a comparative study of the state in Pakistan, in terms of a strong/weak state, i.e., strong/weak in certain contexts. Within this the nature of industrial policy is seen as a specific outcome of state dependency and state power. Parallel to this I investigate the role of 'class' (in terms of its strengths and needs) in the overall equation. Finally, I consider how economic development (as a third major concern) is influenced by the interaction between state and class on the one hand and how it affects state/class relations on the other hand.

It is, in fact, difficult to talk of "the state" or the 'Pakistani state' as if it were an entity with its own rights and individual interests. Class, state and the instruments of the state are not intrinsically separable, and I must make clear that the state is not an independent third actor. However, for the purposes of this research they shall be treated as analytically separable. The state is influenced by class and other external forces (e.g., the capitalist world-economy) just as it shapes and/or manipulates them while defining the parameters of their action.

In this dissertation I assert, then, that there is a distinct demarcation between government, state, and society, with the latter impacting state institutions and apparatuses both directly and

indirectly. The resultant transformation influences the outcome of the process of development (or maldevelopment). Thus the relationships continue to change and all three "actors" are constantly changing in character.

An overall external general impression has been created (and is constantly reinforced) that Pakistan's economic performance is successful and impressive. This notion is promulgated not only by the various Pakistani government institutions, but by a number of international lending agencies. Thus aid packages are frequently renewed on the basis of questionable growth statistics that enable these institutions to provide a further justification for continued lending. Their claims that the country has been following all the 'correct' policy measures recommended by them are in turn confirmed by government research institutions whose "findings" verify these "claims" which are at the base of external control over domestic policy. We need, therefore, to examine and question these self-reinforcing claims. This study represents one way of problematizing established ways of looking at industrial policy. By so doing, we can raise a whole new set of valid questions regarding state/society relations.

From the outset I reject many of the classical and relatively crude marxian approaches to class. Instead of trying to base class in the process of production or market/exchange relations, I use the concept broadly to encompass state managers and subclasses specifically on the basis of their position vis-à-vis the state. In this sense power relations are embedded in the material resources available or

under the control of a class, but class is heavily constrained, in turn, by its relationship to the state.

Classes are not unidimensional, but at different times they act opportunistically. In other words, class alignments change constantly so we have constantly to redefine and re-describe them. The underlying force behind changing class alliances is usually economic interest. This dissertation is not designed to promote a particular mode of class analysis or theoretical approach. Rather we are using class and state as tools for a better understanding of politics.

We can, therefore, apply a class-based approach and analyze classes according to the relations of production, according to market relations, according to income categories, and even according to group theory. At different times they can be helpful within a limited context. This is so because we are describing a fluid phenomena.

How are classes formed? What happens when they wield power, and what are the effects of that power? The changed aspect of classes and their shifting power position vis-à-vis the state is relatively easily demonstrated by a comparison of class behavior throughout Pakistan's history. Which classes existed at the time of independence in 1947 and which ones wielded power under Zia? This dissertation traces the change in the nature of the dominant classes, and the rise of subordinate classes to a position of power. This analysis is then used to question and examine the process of development and politics in Pakistan.

The dynamics of social classes affect the nature of the state through their influence over the direction of policy within a certain

time period. Thus a class may try to prevent policy formulation adversely affecting its interests. If it is unsuccessful it may actually attempt to prevent policy implementation. This has meant, for instance, that the two sets of land reforms introduced in Pakistan in 1958 and 1972 lacked significant redistributive value due to deliberately distorted and flawed implementation. Similarly, with regard to industrial policy, the oft formulated initiatives regarding export oriented industrialization (EOI) have frequently been thwarted by the large industrialists who were used to operating in protected markets.

This dissertation deliberately ignores ethnicity as a major factor in the formulation and implementation of industrial policy. This does not mean to deny the reality of ethnicity but to assert that in this specific context, ethnicity, like gender issues, has to occupy a secondary position. The other readings, largely consisting of class politics, are considered more significant for an analysis of the politics involved in industrial policy in Pakistan. Ethnicity plays a role but only when it furthers the economic class interests of a particular class segment. Thus it is not a significant independent agent, but is deeply related to class issues.

#### Pakistan and its Industrialization as an Historical Problematic

When constructing an analysis or history of the pattern of Pakistan's industrialization, we cannot escape the concept of "reading" something, like "reading" an event or a particular way of "reading" a text and deriving and/or creating meaning from it. Althusser says

that different people and theories will read an event differently (1965, 14-15). This implies implicitly that we can adopt a postmodern approach in the present analysis. Such an approach recognizes that there is no natural state to the ways and interpretations which are studied. It opens new ways and possibilities to an analysis of class and state. Like Jameson (Arac 1987:284), my approach is that the method should be used as a tool to provide a clearer explanation of a process or event. It does not necessarily mean disowning other explanations and interpretations, all of which exist on roughly similar planes. However, the question of validity is serious as the individual author can privilege one interpretation over another, thereby providing validity to a particular explanation.

There are many accounts of Pakistan's history and it is difficult to assert that one is correct or right while the other is not. The problem of validity is there and can be taken care of in terms of degrees. The following pages about the emergence and genesis of Pakistan will provide an idea of how complex social change and transformation can be read in many different ways.

An event happened: British India became two countries in 1947. No one will contest that it affected the lives of 6.5 million people on both sides of the border. Neither will anyone deny that it was the biggest human migration this century has seen so far, with six million people migrating on the grounds of religion or communal insecurity. What caused this upheaval?

No one contests the event; however, its causes are certainly contested. There are various interpretations of the issues that caused

it. While "the event" took place we have to remember that it was the sum-total of small events that are generally analyzed on a cause/effect basis, largely based on linear historical, and spatial considerations. Various interpretations are passed to us in the verbal and written records kept by people at the time and later used by researchers. We can, thus, only rely on texts to give credibility to a particular interpretation.

When partition was taking place, different accounts were being written from different points of view--for instance, the Hindu's, the Muslim's, the Britisher's, some with claims of neutrality, others with perspectives beyond the nation-state such as communists. Among these accounts there existed largely sociological, ethnographic, communal, economic, and ideological explanations based on realpolitik. There was a dialectical relationship between what was written, what was thought and what was done (writing, thought and practice). It is difficult to separate the three from one another or to assert which led to the other or which factor influenced more than another. There can be all kinds of interpretations producing the realities of this event.

Aside from this complex process, there emerged later on other accounts of the partition in academic circles. The word partition itself is loaded with meaning, that India which was one--a unity--was carved into two pieces, overlooking the fact that in terms of longer historical cycles India has hardly ever been "one" or "united" as an entity except under force, such as that of the British or the Mughal emperor Akbar before them. Instead, if we say the creation of Pakistan,

it is a positive way of viewing a situation. However, this too provides only a partial account of what happened, concentrating on only a part of the whole. India was not "created" in 1947, as it existed before the British came, but Pakistan did not exist except as a concept for a few decades before 1947. Another way of viewing the event is to call it Independence, which includes both India and Pakistan. However, that represents a point of view which can be only seen vis-à-vis the British: it was independence from British colonialism. Thus again, we find that reading is rooted in a specific historicity of the last two hundred years. It may be pointed out that for Pakistan it was an act of creation as well. All these terms of description give only a partial explanation. Each one if taken by itself will not provide a holistic description of what happened. This raises the question whether indeed such a metadescription is possible.

Later, aside from the interpretations of the different parties directly involved in the event, came the explanations of academics and practitioners. These, in the context of Pakistan range from the ideological ones provided by the state, to legal political tracts provided by jurists, to those that would fall within the bounds of the realist approach, later according to different ideological perspectives such as marxist and neo-marxist, organization theory, group theory, game theory, etc. Also there were the analyses of the economists that looked at the effects of partition in terms of its impact upon policy and the state's flexibility regarding its sphere of action and control.

This process was compounded by the complex political situation at the time. Nothing comes to a standstill while situations are analyzed. Thus each analysis is incomplete because it deals with only a portion of the whole and that portion too is frozen in terms of time and cannot extend beyond that limitation. This dissertation will attempt to bring together that which is considered significant for an explanation of industrialization in Pakistan.

#### Background to the Problem

The Pakistani state has changed tremendously since 1947. This is largely because the nature of class as well as extra-class forces has changed both inside and outside Pakistan. We will trace the evolution of the Pakistani state in the 1950s to the state in the 1980s. In the 1950s it was a weak state in the sense that it needed an industrial class and proceeded to create one by providing it abundant incentives. The industrial class was also weak because it was dependent upon the state for its privileges (basic infrastructure, subsidies, tax rebates, industrial sanctions, loans, and import licenses). In contrast, the state in the 1980s was dependent upon a burgeoning industrial petit bourgeoisie whose creation was accidental. The state provided it incentives for investment in the hopes of increasing economic growth, thereby confirming its subservience to the international lending agencies.

The Pakistani state may be said to consist of the civil and military bureaucracies that form the apparatus of the state on the one hand and those in control of the government on the other. It has experienced the primacy of the military for 24 of its 42 years,

reflecting the dictatorial and militaristic nature of the state. It is important to note that the government in Pakistan reflects the relative power position of the political apparatus vis-à-vis the repressive apparatus.

However, formal control of the state apparatus and state itself cannot be understood without a study of class formation and class alliances. At the time of its creation (1947), Pakistan inherited a semi-feudal mode of production; landed interests were very strong while the class of indigenous bourgeoisie was relatively underdeveloped. Similarly, as Alavi (1972) has pointed out in his post-colonial state model, the state apparatus (i.e., the military and bureaucratic structures) bequeathed by the British was relatively more developed. Thus we find the dominance of a landed, military and bureaucratic elite during the initial years of Pakistan. The military was not as strong as the civil bureaucracy at the time, but an ongoing political vacuum and U.S. aid helped enhance its strength. However, after the first few years the bourgeoisie, largely Muslim immigrants from India, was able to consolidate its hold and thereby bear upon policy. This class was dependent upon the state apparatus to influence policy formulation and implementation. It did not have the same kind of intra-class links with the military and civil bureaucracies as the landed elite, whose sons were entrenched in the two bureaucracies. The Pakistani state courted this class as a source of investment capital for industrialization, increasing its value as a group.

### Industrial Policy in Pakistan

During the 1950s, Pakistan followed a policy of Import Substitution Industrialization (ISI) backed by high tariffs and import controls. During the 1960s, due to the influence of the World Bank and its affiliate institutions, an export promotion strategy was adopted without dismantling the structure of protection for domestic industry. After a brief period of aberration (1972-1977) when certain key industries were nationalized, Pakistan reverted to its policy of ISI. Presently, there is an emphasis on private and foreign rather than public sector investment.

Why has Pakistan relied so heavily on ISI? Why has it not developed a more successful Export Oriented Industrialization (EOI) strategy? An obvious answer is that economic policy logic dictated a reliance upon ISI. Pakistan considers ISI to be the state's response to worsening economic indices. For instance, the low growth rates (3.7% average between 1971-77) under the Bhutto government which favored heavy public sector involvement, would have led to an increased international dependency had there not been a substantial shift in policy. The Zia government tried to encourage private sector investment through ISI as a strategy for economic development.

There has been a willingness to pay a high price for industrial advance which explains the level of incentives provided during different periods. The degree of protection has always been high and has resulted in the creation of excess capacity some of which may not be regarded suitable for utilization even in the long run. Some industries remain uncompetitive even after long periods of operation. Studies carried out at different stages of development indicate that the value added in number of cases may be negative, if international prices

are used for analysis. This implies that, in cold reality, a part of the industrial sector is using more of the national resources than it is contributing to the national pool. (Government of Pakistan: The Sixth Five Year Plan, 155-56)

The quote above provides an idea of the "commitment" of the state to industrialize. Although the state bureaucracy is aware that protection has resulted in inefficient, parasitic industries, yet it continues to support them. Why? Sometimes referred to as the second phase of ISI, the industrialization policy of the Zia regime reflected the state's need for support from the private sector as well as the World Bank and U.S. dollars to keep its economy functioning. While Pakistan never completely abandoned ISI, the Bhutto period (1971-77) witnessed nationalization of certain industries which resulted in the drying up of private investments. The Zia regime tried to re-invigorate the private sector with massive amounts of U.S. dollars and World Bank loans, and there was a cautious rise in private sector investment. It was a clear case of interaction between class, state and the world economy.

### Organization

To methodically pursue the research problem and introduce my method of interpretation, I have arranged this dissertation so that Chapter II provides an overview of theories of the state, and class in the context of economic development.

Chapters III and IV lay the groundwork for a political and historical understanding of Pakistan's formation and its early years. These chapters discuss the roots of Muslim identity in India by tracing

the creation and class basis of the Muslim League, the class basis of the bureaucracy, and its complex relations with the other dominant classes. These chapters also discuss state actions designed to encourage industrialization such as setting up infrastructure, research and investment institutions, state dependency upon a weak industrial/merchant class for production and, conversely, the dependence of a weak industrial class upon the state for protection.

Chapter V covers the formulation of industrial policy during Pakistan's first decade taking into consideration the political and economic constraints on the state. It describes the economic instruments of policy used by the state, and explains the overemphasis on not just industrialization but import substitution industrialization. It also compares the different theoretical explanations of ISI's failure in Pakistan.

Chapters VI to IX are concerned with the industrialization experience of three regimes in Pakistan in the context of changing power relations of the state with different class segments. Chapter VI discusses the Ayub era's (1958-1969) disastrous economic policies in the light of an authoritarian regime, dependent upon foreign aid and diligently pursuing foreign economic models that emphasized overall economic growth. These policies culminated in establishing a repressive order, to break out of which more than half the population of the country waged a civil war and opted for independence.

Chapter VII consists of Pakistan's politics between 1972 and 1977 under the Bhutto regime. This was a time of major upheavals in Pakistan, signalling the formation of new class alliances in rudimentary

form. It notes the shift from a developmentalist regime to a populist regime and discusses what this implied for the nature of the state and class/state relations.

Chapter VIII, titled "The Rise of Small Scale Industry: A Surreptitious By-product of Development" is the crux of the dissertation as it proves the central theme of this research. It demonstrates how economic policies give rise to a new middle class of petty industrialists and their impact on the politics of the country. The rise of this class demarcates the shift from elite-based politics to a wider middle-class politics.

This theme spills over into Chapter IX which focuses on the Zia regime (1977-1988) and discusses the Bonapartist<sup>2</sup> nature of the state in the context of the petit bourgeoisie. The state was compelled to extend support to this new class segment whose success in the political arena brought it awareness of its own power. The impact of this class on the politics of the country exacerbated the Islamization policies instituted and implemented by the regime.

We conclude that contrary to crude marxian analysis and conspiracy theory, political processes tend to be complex and influenced not only by class and state relations, but also by the fact that these relations are themselves mediated by the conditions and consequences of economic development. The rise of the new middle class signals a new type of politics, at least on the surface--that of a reversion to conservative

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<sup>2</sup>From Karl Marx, The Eighteenth Brumaire of Louis Bonaparte, (New York: International Publishers, 1990). This edition is based on three earlier editions namely, New York, 1852; Hamburg, 1989; and Hamburg, 1885.

policies and identification with Islamic values. However, while Islam empowers the subordinate classes to stand up to the state, resist, and successfully insist on a wider base for politics, Islam also constitutes the means through which the state exercises ultimate control and manipulation. Rather than being an agent of positive change, Islam now becomes the sole means of legitimizing repressive state policies. This leads us to the difference between a strong state and an authoritarian state which may be quite different from one another. The conclusion also discusses whether (state) industrial policy is capable of serving as a vehicle for success (improvement in the quality of life of the people) in the third world. It questions whether a particular pattern of industrialization that a country follows can make a substantive difference to its position and condition. Are the factors that bring success based on strategy alone? My assertion is that 'success' depends upon the particular manner in which class, state and the world economy interact.

CHAPTER II  
TOWARD AN APPROPRIATE MODEL FOR CONSIDERING  
THIRD WORLD STATES: A LITERATURE REVIEW

This study analyzes industrial policy in Pakistan from the perspective of state and class. It is argued that mainstream modernization approaches are inadequate for understanding the process of development, social change and politics in Pakistan. Therefore, an effort is made to integrate state and class theories to explain competing class interests, the struggles for authority, and their impact on the socio-political fabric of Pakistan. It would be appropriate to review relevant state and class literature and clarify the various theoretical notions and specific usages employed in this project.

Major Debates within State Theory

Most philosophers and social scientists attribute the centrality of the state to the coming of the Enlightenment and modernity, the birth of modern capitalism and the industrial revolution. These phenomena imply certain developments: the growth of institutions and organizational structures, an emphasis on rationality, empirical thinking and the scientific method combined with a greater stress on individualism. These ideas involve a study of the nature and role of the state. However, before going into details about the best available method to give theoretical coherence to social phenomena, we must not forget the warning that Marx himself gave in a letter in

1877 against any attempt to use "as one's master key a general historico-philosophical theory, the supreme virtue of which consists in being super-historical."<sup>1</sup>

Theoretical literature on the state is broadly divided into four categories consisting of liberalism, liberal democracy, political sociology and marxism. Liberalism is concerned with questions of sovereignty and citizenship, while liberal democracy inquires into the problem of establishing political accountability. Political sociology deals with institutional organization of states as well as the international state system. Marxism attempts to put the state in its historical perspective and uses class analysis as a tool for comprehending political coercion (Held 1983, 2-3).

Another way of looking at state literature is to examine whether it is state centered or society centered. Pluralism was the reigning episteme of the 1950s in this regard and belonged to a society based analysis in which interest groups competing with one another were seen as interacting on neutral state grounds. However, pluralism's claims for an autonomous, neutral state, bending to the will of a majority organized by democracy, pressure groups, etc., have largely been replaced by a new literature. The last two decades have produced a variety of schools of literature on state theory; neo-marxist and statist approaches being the most powerful.

Neo-marxist and statist literature represent the society and state-centered approaches to the study of the state. Neo-marxism is

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<sup>1</sup>K. Marx to Otechestvenniye Zapiski, November 1877, in Marx and Engels: 1956, p. 379.

shaped by the assumption that the state is the result of class interaction based on class interests, that society is the determining factor while the state is nominal. This thesis, developed extensively during the past twenty years, has its roots in conceptions of Social Contract and General Will as presented by Thomas Hobbes (Leviathan, 1651), John Locke (On Civil Government, 1692), and Jean Jacques Rousseau (The Social Contract and Discourse on the Origin of Inequality, 1762). There are several approaches to studying the state. Let us consider neo-marxism first.

#### Neo-Marxist and Statist Approaches

The neo-marxist approach to the state is, of course, heavily influenced by marxist understanding of a society divided into classes and the state representing and protecting the interests of the dominant classes. The basic thesis is that state emerges from a class society.

Within the neo-marxist school there are two groups with differing outlooks on the state. The first one, structuralist, is best represented by Nicos Poulantzas while the second one is corporatist, represented by Schmitter (1974), Stepan (1978), and Panitch (1980). The latter largely deals with corporatist theory in Europe--particularly the emergence of the welfare state. Its basic thesis is that capitalism will eliminate competition if it is not profitable. The contribution of corporatism lies in the fact that it made clear the importance of looking at particular powerful interest groups--groups that become parastatals.

The structuralist group, following the French tradition, is criticized for its overly functionalist approach. The overall

structuralist (Althusserian) position asserts that the structure determines change as opposed to the individual. "Objective relations" are important as they determine the system rather than individual bourgeois interests influencing the state and state policy. This assertion led to the famous debate between Poulantzas and Ralph Miliband. The latter asserted that a study of the "concrete" factors is important, meaning that the direct participation of members of the capitalist class in the state apparatus and government as a means of influencing and ushering change cannot be ignored (Carnoy 1984, 104-106). The debate between the structuralists and instrumentalists as represented by Poulantzas and Miliband is important in that it helped make concepts of the state and its relative autonomy clearer and sophisticated.

The structuralists contend that the state enjoys relative autonomy from direct class rule while the crude instrumentalist position states that the state is an instrument of direct bourgeois interests and class rule. However, by the beginning of the 1980s, the leading theorists of both schools had changed their position drastically.

The statist position on the state asserts that while society's influence upon the state is important, the reverse has been ignored. For this school, the state is important in the determination of any phenomena. They treat the state both as a conscious actor and as an organizational structure, with emphasis on the first factor. They are refocusing on the Weber-Hintze understanding of the state, treating countries more like "particular state-societies in an uncertain, competitive, and interdependent world of many such

entities . . ." (Skocpol 1985, 5). This attitude indicates a paradigmatic shift, a shift that considers society and economy in relation to a state and not vice versa. The state is deemed as an autonomous actor (Block 1977, 6-28; Skocpol 1980, 155-201; and Trimburger 1978).

My purpose in providing a very broad and sweeping view of state theories in general is, firstly, to make the task of locating third world state theory easier within this broader canvas; and secondly, to point out that state theories are not presenting completely "new" ideas. Rather they are juxtaposing different ideas and arriving at distinctive variations of the same theme. It also must be pointed out that third world state theory cannot be considered as totally separate from state theory in general, even though the latter suffers from a heavy western and/or Eurocentric bias.

#### Marxist Perspective of the State

Marxist theory is particularly concerned with determining the ways in which class struggles and state structures and strategies define the options and strategies open to civil society and vice versa. According to Marxist theory, the state is constituted by the civil and military bureaucracies (the state apparatus) on the one hand, and those having formal control of the state apparatus on the other hand. However, formal control of the state apparatus is different from control of the state. Class nature becomes decisive for the determination of state control at any given time as it determines the relative autonomy of the state. Class formation and struggle define

the limits within which state action can take place. We will return to this theme later.

There are some basic concepts besides class that are integral to the concept of the state in marxist literature. These are those of legitimation, and relative state autonomy. Legitimation is basically concerned with state hegemony over the ideological apparatus (Carnoy 1986, 148; Saul 1974, 351). Legitimation involves persuading the masses of two factors:

- (a) The existing social order is justified under the circumstances,
- (b) The state's authority is required to maintain the social order.

Such a process of justification of state authority requires a process of mystification (Hamilton 1982, 7; Althusser and Poulantzas as cited in Carnoy 1984, 84) whereby, the state, cooperating with the dominant class, appears neutral, standing for the interests of all. This process is carried out through different government and societal institutions like economic commissions, the educational and legal systems, the information media and culture.

Let us now discuss the other important element of state theory, namely state autonomy. Though the state has control over the means of coercion and legitimation, it is dependent upon resources generated through the mode of production by the private sector, especially the dominant class segments. The extent of state autonomy varies. While the state is economically dependent it is expected to maintain the conditions which reproduce the mode of production. Thus the state develops an ambivalent relationship with the dominant class (Hamilton 1982).

### The Question of State Autonomy

It is very difficult to establish how much autonomy a state can exercise at a given time because it depends upon its relationship with the various classes. As mentioned before, while the bourgeoisie control the means of production, the state has monopoly over the means of coercion by which it can ensure that the relations of production may be reproduced. The three problems that most conceptions of state autonomy have to contend with are:

- (a) The demystification of the appearance of absolute state autonomy and neutrality;
- (b) Setting the boundaries within which the state may indeed act with relative autonomy vis-à-vis the dominant class factions;
- (c) Setting the boundaries of state action with regard to foreign capital coming from other states, transnational corporations and financial institutions.

State autonomy, because it can neither be seen nor measured, has become increasingly contentious. Marxist literature on the subject is divided into two broadly defined schools, namely instrumentalism and structuralism.

#### Instrumentalism

A classical marxist thesis asserts that society is divided into owners of the means of production and the producers. These classes are locked in conflict because of their inherent structural position. Ralph Miliband's book, The State in Capitalist Society (1969),

developed this idea. According to Miliband the "ruling class" is the group that owns and controls a predominant part of the means of material and mental production. By these categories he means not only the direct owners but also those who manage them. He talks about "effective control" over three main sources of domination: the means of production, where control may involve the ownership of these means but need not necessarily do so; the means of state administration and coercion; and the main means of communication and consent (Miliband 1987, 329). Because of this kind of control, it is assumed that the ruling class controls the state. However, Miliband points out that this assumption is based on the notion that class power is translated into state power, whereas in fact there is no such automatic translation (Carnoy 1984, 52).

Miliband's important contribution lay in pointing out the close connections among the ruling class, and asserting that even if state personnel do not have similar social origins, they behave homogeneously. The bourgeoisie dominate civil society through managerial jobs in government, but more importantly due to its role in the capitalist production process (Ibid., 47). The instrumentalists argue that the state is an instrument of the dominant class which intervenes directly or indirectly in its functioning to guarantee the stability of the class structure itself. Miliband suggests that the dominant class derives its power from capitalists holding key positions in the administrative and legislative machinery of the state (Hamilton 1982, 9; Alavi 1982, 29; Epsing-Anderson et al. 1979, 141-143; Miliband 1983, 59).

That the ruling class uses the state as an instrument of domination and self-interest is emphasized. This is possible because the ruling class controls the means of production, and can pressure the state through withholding investment capital. This way the capitalist class bars other classes from developing financially or politically. Though this pressure is not enough to explain all the policies a state may follow, it is decisively important on many occasions. Additionally it is argued that given the fact that the nature of the state is determined by the nature and requirements of the mode of production, the personnel of the state are important. They can be used as instruments by the ruling classes. However, it is important to note that the state, while it acts on behalf of the ruling class, does not act at the behest of the ruling class.

This raises the question of state autonomy. However, before discussing that subject, let us examine structuralism.

### Structuralism

This school arose in France in the mid-1960s as a reaction to the overly individualistic writings of thinkers like Sartre and Lefebvre who placed "man" and his individual actions at the center of the universe. Louis Althusser pointed out that individual action is conditioned and subjugated by ideological apparatuses.

While instrumentalism and structuralism are not diametrically opposed, they do vary from one another in their areas of emphasis. Structuralism, like instrumentalism locates its basis in marxism, but unlike instrumentalism it focuses its attention on class relations

inherent in the capitalist mode of production. The function of the state is ideological-repressive, but its class nature is "structured" by economic relations outside the state. The state is both relatively autonomous from these economic relations and also the arena where the dominant class organizes itself into an overall unity despite its competing factions. Politics in this model are centered around the dominant class's attempt at maintaining hegemony over the subordinate classes through the state (Carnoy 1984, 5-6). For this purpose the state upholds private property and to perpetuate class rule allows political parties, legislative action, democratic institutions, the maintenance of the school and church system, and the legal system. The state in that sense is the arena where the dominant class factions mediate and struggle with one another within the limitations of their economic action.

According to Althusser the state is rooted in the economic base (structure) and in the ideological apparatuses (superstructure). He asserts that the superstructure is determined in the last instance by the base: "The upper floors (the superstructure) could not 'stay up' (in the air) alone, if they did not rest precisely on their base" (1971, 135 quoted by Carnoy 1984, 95). The last instance gives the concept of relative autonomy of the superstructure from the structure and secondly also asserts that the superstructure influences the base, so that there is a reciprocal and continuous process that brings changes in the two areas of base and superstructure.

The structuralist approach contends that the state must act within the constraints of the social formation (of which the state

is a part). Its function is to reproduce the social formation. It is not necessary that dominant class intervention always help in the perpetuation of the social formation. State autonomy becomes crucial when the state intervenes to ensure dominant class hegemony. A distinction is drawn between the continuation of an established class system (which the state maintains) and the actual or perceived interests of specific dominant class factions, which, at times, can be contradictory. In this case, the state usually exercises its autonomy and opts to maintain the stability of the system rather than the dominant class segments. In certain circumstances particular dominant groups might realize that their long-term interests clash with the pursuit of their immediate goals, and act in concert with the state. At other times lack of such perception might lead to divergence, causing a clash between class interests and state action. However, because the state does not enjoy absolute autonomy, dominant class segments work against the survival of the state system.

The relative autonomy of the state might be viewed as 'instrumental' insofar as the state is free of direct pressures by dominant class segments; or, it might be "structural," meaning the state's capability of going counter to dominant class interests by introducing a new mode of production, for example, socialization of the means of production or supporting revolution in a capitalist system. However, in response to such action the dominant class might forge forces together, overcome its internal conflicts and restrict state action to specific options within the class structure. Thus state action is limited by certain structural constraints which it cannot transcend

without risking its own destruction. Though the dominant class might be weak due to internal or external factors, it can be capable of cohesive intervention in case of the threat of massive structural change.

While the debate about the relative autonomy of the state continues, according to Marx and Engels there are two types of relative autonomy. The first is when the ruling classes have control over the economic and political apparatuses, the second instance is when these classes are in disarray. These are termed as unusual circumstances and it is under such circumstances that the state's power increases so that its relative autonomy increases.

### Bonapartism

In "normal" times the state is credited with some degree of autonomy, in "abnormal" times the possibilities for autonomy might increase. A Bonapartist state signals the relinquishing of political power on the part of the ruling class in exchange for protection against social and economic change. Powerful Bonapartist states usually emerge after chaotic events, which contain elements that can disrupt the existing social conditions, or elements of unpredictability. Peripheral states are especially prone to the Bonapartist state phenomenon where political instability encourages the inclination of the dominant class to support dictatorial regimes in return for economic benefits.

Bonapartist states cannot exist without the active support of international capital. The capitalist system is not only reproduced

at the state level, it is also reproduced at the international level. For the system to be viable, the structure of domination and subordination needs to continue so that resource exporting countries are perpetually disadvantaged vis-à-vis the advanced industrialized nations. Authoritarian structures in peripheral countries are essential for the extraction of surplus. Thus the alliances between foreign capital inflows and peripheral strong states develop and are maintained.

In his The Eighteenth Brumaire of Louis Bonapart, Marx discusses historical instances when no class has enough power to rule through the state. In those instances the state (executive) itself rules. These circumstances arise when the bourgeoisie "confesses that its own interests dictate that it should be delivered from its own rule; that in order to restore tranquility in the country, its bourgeois parliament must, first of all be given its quietus; that in order to preserve its social power intact, its political power must be broken" (Marx and Engels 1979, 143). Marx emphasized that Louis Bonaparte, a mediocrity, was able to rule and gain undisputed control of the state only after all social classes showed their incapacity to rule. Additionally he was able to play off different classes against each other and none of them had the forces to regain power.

Nevertheless, the Bonapartist state had to modernize the economy in order to achieve its own aggrandizement. Bonaparte did not change the relations of production; even when the bourgeoisie did not control the state. Bonaparte served their economic interests--they accumulated vast amounts of capital under his rule. But this arrangement contained

the seeds of important contradictions; the bourgeoisie in France, growing wealthy, soon began to feel the fetters of the autonomous state and moved to regain control of the state apparatus. At the same time the urban proletariat also expanded and gained strength. Ultimately, the emperor compromised with the bourgeoisie, and the end of his regime was marked by the most important worker revolt of the century, the Paris Commune.

For Marx, the Bonapartist state was an exception to the norm, and was possible due to the balance of class forces, so that state power, as mediator between them, acquired a certain autonomy from both. Even in this case, however, the state served the interests of the capitalist class, since it did not change the relations of production, thus leaving basic control of the economy in bourgeois hands. This also meant that an autonomous state of this form must necessarily be short lived, as the bourgeois and proletariat will regain strength to struggle under favorable economic circumstances. Such circumstances might result from favorable development policies (Carnoy 1984, 53-54).

While Marx analyzed the situation in France, the same type of analysis is also appropriate for the third world in many instances, specifically in the case of Pakistan where Bonapartism was formally instituted with the declaration of martial law in 1977. Third world theory is diverse, and we cannot deal with it here in its entirety. However, we will do a brief overview of third world state theory and examine it in detail in the context of Pakistan.

### Third World State Theory

While the re-emergence of state theory is traced back to the Poulantzas/Miliband debate, its focus on the third world can be traced back to Alavi's theoretical writings. Taking Hamza Alavi's 1972 article "The state in postcolonial societies: Pakistan and Bangladesh" as the departure point for our discussion of third world state theory, one can go on to the discussion of third world state theory in Africa and Latin America. Since then third world state theory has been developed in almost every direction, starting with the global context (Wallerstein, Amin, Frank, Galtung, Immanuel) and ranging from studies of militarization (Decalo, Lowy, Sader), to bureaucratic authoritarianism (O'Donnell, Clive Thomas), and Bonapartism, etc.

It is difficult to talk of third world state theory as if it is an organized, categorized field of knowledge. There are numerous useful ways of talking about the third world state. The heterogeneity of the third world combined with the plurality of theoretical explanations of different phenomenon renders any kind of exhaustive presentation of third world state theory infeasible.

While the third world is spread over three continents, representing more than half of the world's population, culturally and linguistically diverse, it does have certain commonalities. It is characterized by extreme poverty and inequality, structural as well as direct violence, exploitation at different levels, and a peripheral status in capitalism. Different writers have divided the third world state according to different categories, ranging from the type of government and dominant class to its mode of production and place in capitalist formation.

This dissertation uses third world state theory as its main method of studying Pakistan and in particular employs Hamza Alavi's post-colonial state model to explain politics in order to understand the context of industrial policy.

#### Hamza Alavi's Post-Colonial State Model

A discussion of Alavi's model is central for an understanding of Pakistan's case not only because very little theorizing has been done in Pakistan's context but also because Alavi's model can be applied to other post-colonial states. In the early 1970s John S. Saul wrote that the "problem of 'the state' as it presents itself in the context of 'underdevelopment' has been undertheorized and little researched." Hamza Alavi was among the first few theorists to focus on the nature of the third world state in order to explain the different patterns of development among some Asian countries.

Finding his basic inspiration in classical marxism, Alavi applied state theory (which had until then been largely Eurocentric) to peripheral state formations and introduced a relatively different way of looking at the third world, which had until that time been largely analyzed in terms of orthodox paradigms. To be specific, Alavi's theory concerns states which had experienced direct colonial rule.

Alavi premised his thesis on two points: (1) the "overdevelopment of the state apparatus" phenomenon, and (2) "a new and relatively autonomous economic role" of the postcolonial state. He explains that in colonizing the third world the metropolitan bourgeoisie had to create a state apparatus that could control all the indigenous social

classes in the colony. In this sense the super-structure is relatively overdeveloped if compared to the structure in the post-colonial state, for its basis lies in the metropolitan structure which is responsible for its establishment and development. "The colonial state is, therefore, equipped with a powerful bureaucratic-military apparatus and with governmental mechanisms that enable it, through routine operations, to subordinate the native social classes." Therefore at the time of independence a group of weak indigenous bourgeoisie find themselves dependent as well as controlled, more than ever, by the two bureaucracies, which Alavi calls the bureaucratic-military oligarchy. This oligarchy operates in partnership, safeguarding the interests of the landed class (a class from which they predominantly originate) and the capitalist class.

Alavi treats the bureaucratic-military oligarchy as a separate force in the shaping of policy because, according to him, members of this oligarchy play a semi-autonomous role in the situation created by the lifting of direct metropolitan control. He maintains that the oligarchy, while promoting and protecting the interests of the three major classes (the indigenous bourgeoisie, the metropolitan neo-colonialist bourgeoisie, and the landed classes) with which they have various affiliations, are ever conscious of their interests as a class. (This theme is developed in his 1982 article.) In case of conflict, it is the latter which they will uphold rather than the former.

The strength of the bureaucratic-military oligarchy is directly related to the weakness of the indigenous bourgeoisie. This fact also results in a strong state:

The central proposition I wish to emphasize is that the state in postcolonial society is not the instrument of a single class. It is relatively autonomous and it mediates the competing interests of the three propertied classes--the metropolitan bourgeoisie, the indigenous bourgeoisie, and the landed classes--while at the same time acting on behalf of all of them in order to preserve the social order in which their interests are embedded, namely the institution of private property and the capitalist mode as the dominant mode of production. (Alavi 1972, 62)

Alavi has been extensively criticized for ascribing a vague economic role to the state and for ignoring the ideological role of the state. He asserted that the postcolonial state assumes an economic role in the name of promoting economic development. This role, he pointed out, is different from the role of the classical bourgeois state, where economic development took place under different conditions. Thus the historical specificity of the post-colonial state's experience is a determinant of its power and action. It is in this context that class formation and alliances as well as the class state relationship become important. The latter relationship is decisive in determining the relative autonomy of the state.

Alavi contends that in the presence of a weak class of indigenous capitalists

. . . the military-bureaucratic oligarchies, the apparatus of the state, also assume a new and relatively autonomous economic role, which is not paralleled in the classical bourgeois state, because the state in post-colonial society directly appropriates a very large part of the economic surplus and deploys it in bureaucratically directed economic activity in the name of promoting economic development. These are conditions which differentiate the postcolonial state fundamentally from the state as analyzed in classical marxist theory. (Alavi 1972, 62)

Besides asserting that the prominent role of the post-colonial state is grounded in its colonial past, Alavi ascribes to the state a "new" and direct role in the production process. Based upon this, the state can exercise a powerful influence upon the direction of development; this role is carried out through the apparatuses of the state.

#### Critique of Alavi's Postcolonial State Theory

Although I have relied upon Alavi's model extensively for an explanation of Pakistan's politics of maldevelopment, there are shortcomings and points of difference. Alavi's overdeveloped state thesis is mainly critiqued on the basis of the question: overdeveloped compared to what? Is there a normal relation between colony and master, and later, between the state apparatus and other social classes? If so, how is it determined?

Alavi has also been criticized for exaggerating the case of overdeveloped state apparatuses. In actual fact the bureaucracy and military were only in a rudimentary stage of development at the time; the impression of a sufficiently well-organized bureaucracy to run both the political and economic affairs of the state with local expertise is misleading.

The economic role of the state is also unclear. Not only is it difficult to determine the exact state share in the economy, the criterion of the exact extent of its economic activity is also very contentious. Should it be restricted to its "direct" role in the national budget or extended to its role in the production and

appropriation process? Furthermore, the state might be involved in the production process itself, in which case it appropriates directly, or the private sector might be operating in the market directly, in which case the state might be taxing the profits and simultaneously providing protection and subsidies as in Pakistan historically. Thus at a concrete empirical level, the determination of a state's economic role will certainly create analytical problems for which there can be no predetermined criteria as answer.

Alavi also asserts that the state deploys the economic surplus into "bureaucratically directed economic activity in the name of promoting economic development" (1972, 62). It is not clear why such a situation is possible. Directing economic activity so as to make the bureaucracy strong does not constitute the entire explanation except that it increases the economic power of the bureaucracy as an institution. It has been suggested that the possibility and necessity for economic activity for the peripheral state are structurally rooted in the historical disruption of the economic structure of peripheral society (Ziemann and Lanzendorfer 1977, 147). Without a further clarification and elaboration of the "new" economic role of the state, the theory of the postcolonial state will continue to be inadequate as an explanation of the existing conditions in such societies.

The relative autonomy thesis of the state is another problematic area. It is very difficult to establish how much autonomy a state can exercise at a given time because it depends upon its relationship with various classes. While the bourgeoisie have a crucial role in the process of production, the state has monopoly over the means of

coercion by which it ensures that the relations of production are reproduced. It also has an equally important part in the process of consciousness formation whereby "spontaneous consent" of the subordinate classes is obtained. This process is characterized as consensual politics--an area that Alavi does not touch upon.

It is difficult to set the boundaries within which the post-colonial state may indeed act with relative autonomy vis-à-vis the dominant class factions as well as with regard to foreign capital coming from other states, transnational corporations, international organizations and financial institutions.

Alavi also fails to mention the restrictions on state action and state options originating in the subordinate classes. The picture of the postcolonial state that he presents resembles a medieval court, where only the dominant class makes all the decisions while the role of the subordinate classes is reduced to a minimum.

Alavi also needs to pay attention to the ideological instruments of the state. The circulation of political power among dominant classes and the state does not come without ideological justifications and the reassertion of capitalism at a systemic level. In fact, it is the ideological function of political power that provides the means for transcending narrow class interests, and helps legitimize the status quo. Peripheral capitalism, according to Saul "requires territorial unity and legitimacy and the postcolonial state's centrality to the process of creating these conditions (like its centrality in 'promoting economic development') further reinforces Alavi's point about the state's importance. Indeed, when viewed from a marxist perspective,

this is what all the fashionable discussion of 'nation building' in development literature is all about!" (Saul 1974, 351).

Alavi has also been criticized by Saul (1974) and Ziemann and Lanzendorfer (1977), for basing his theory in conventional marxist wisdom which places the economic above the ideational. In fact, Alavi does not develop his third factor--that of ideology--sufficiently. The ideological function of the state is extremely important not only for legitimation of the exercise of force and coercion but also legitimation of the regime. In Pakistan it has been used as a means of legitimation by most dictatorial governments. The fact that religion and ideology converge in Pakistan makes it unique; but Alavi chooses to treat it like classical Marxist theory which negates the importance of religion and nationality. In this regard the Leninist model might be more helpful.

Alavi also ignores the role of foreign ideational influence upon the dominant classes as well as the planning, administrative agencies. What is the contribution of U.S. trained economists and planners who could only operate within the context of western models of development? While he does talk about the role of foreign aid and investment and the consequent restrictions upon state action, he does not pay sufficient attention to the role of education and its influence upon the intelligentsia. The role of the Ford Foundation and the Harvard Advisory Group in the establishment and training institutes in Pakistan that have been traditionally the source of supply of planners and economists is important. This closeness is reflected also in the language of the different policy documents framed at the time.

While Alavi's central focus is the state, its class basis is rather underdeveloped in his theory. He talks of the interconnections between the landed classes and the oligarchy, but he fails to provide convincing theoretical criteria for treating the oligarchy as a class by itself and totally neglects the subordinate classes. The lack of a sophisticated class analysis is one of the most serious flaws in Alavi's model. He sometimes treats classes in relational terms, at other times in gradational terms. He fails to make clear whether (when he is treating classes in relational terms) he is doing so according to market/exchange relations, or if he situates classes in terms of the relations of production, or authority relations.

Alavi also analyzes classes in a crude functional manner. For him the three propertied classes and the state apparatus are the decisive factors in shaping the nature and role of the state. The only other group he mentions in his treatment of the postcolonial state is that of political leaders. However, he dismisses their role as relatively unimportant in the determination of the relative autonomy of the bureaucratic-military oligarchies (1972, 71, 72).

Alavi traces the class origins of the military and bureaucracy in the 1950s to landed classes and propertied classes. However, he fails to provide a picture of their changing class associations and interests. The character of both the military and bureaucracy has changed tremendously. It is true that in the initial days of Pakistan the recruits for the army and civil service came from the landed and propertied classes; they were an elite group chosen by their colonial

masters to implement colonial policy in the country. After independence, gradually this policy changed, and the new recruits came from a different background. Also, by the 1970s the bureaucrats and military officers had acquired an increasingly important interest in property and were willing to use state power for the purpose of acquiring more and/or protecting what they had. The changing nature of class interests in regime maintenance was influenced by considerations of money and property. This does not mean that these groups consciously accumulate property as part of a grand strategy to dominate. They are not conscious of themselves as a class; Frederick Block's thesis regarding the ruling class not being able to see beyond its immediate personal interests is very relevant to this context.

Alavi has been critiqued by Aijaz Ahmed for ignoring the subordinate classes. Ahmed asserts that the rise of various kinds of nationalisms in the country are more in the realm of middle class movements that emanate from amongst the "educated middle class," "which plays the key role in organizing dissidence among these nationalities, usually in a relationship of collaborative competition with the land owning classes" (Ahmed 1985, 59). Thus Ahmed traces the roots of regional movements and ethnicity to ideology and the ascendancy at that level of the intermediate classes.

#### Class Theories

The concept of class is a useful tool because (1) it helps explain structural sources of change and (2) it helps analyze inequality by asking who is disadvantaged, why, and with what consequences.

Theoretical literature on class is based upon the conception that every society has a minority that makes major decisions. This idea, which originated with Plato, was developed in the present century by Mosca and Pareto. Pareto developed the idea of circulation within the elite, thus giving dynamism to class structures. These theorists divided classes into the ruling class and the masses, with a resultant bipolar and oversimplified division that distorts the actual class structure (Petras 1984, 84).

Erik Olin Wright (1979, 4-5) places the definition of class under three major theoretical dimensions:

- (1) Whether class is fundamentally understood in gradational terms or relational terms.
- (2) If class is understood in relational terms, whether the pivotal aspect of class relations is seen as located in the market or in production.
- (3) If class relations are primarily located within production, whether production is analyzed above all in terms of the technical division of labor, authority relations, or exploitation.

While both gradational and relational divisions of class are concerned with inequality, the key issue is the criteria for the social relations of class formation. In the gradational view of classes, lower classes are defined as having less of something that the upper classes have more of, ranging from income to wealth and social status. This view is based on a qualitative position that looks at the outcome of the process that results in inequality. The relational view, on

the other hand, studies the causes of such qualitatively different outcomes for different classes.

Part of Weber's work also develops relational definitions of class associated with market relations. Weber defines these as the relations of exchange between the sellers and buyers of commodities. Most marxist writers defined class by relations of production involving the location within the production process. This process, they contend, gives some individuals command over social resources and social action. As the definition of production is problematic, three criteria have emerged whereby production is defined as (1) a system of authority relations, (2) a system of technical division of labor, and (3) a system of exploitation. Authority relations concentrate on the system of subordination and domination: who gets what and why. The exercise of authority for power insofar as it relates to the relationship of authority with social conflict is studied. The theory of exploitation within marxism denotes a relation of domination in which the people in the dominant class position are able to appropriate the surplus labor of people within the subordinate position (Wright 1979, 15). This may be considered to be the core definition of class relations as it explains, firstly, why the dominant class consumes without directly producing. Secondly, control over surplus product gives it significant social and political power, thereby endowing it with the capacity to shape the direction of social change and social development.

The terms of reference for class analysis are to a very large extent defined by the writings of Marx, Lenin and Weber. They

explored the intersection of class and power and their relevance for comprehending political life. Marx's texts constitute the main source for any class based theory even though he has not provided any consistent comprehensive analysis of class. Marx asserted that class divisions were not found in all segments of history. For example, he said that classes are the creation of history and that in the future they will again disappear. They did not exist under tribal societies which Marx considered classless.

According to Portes (1985, 8), a strictly marxist definition of class based on the process and relations of production results in two rigid categories of classes: owners of the means of production versus owners of labor. This, he asserts, results in a top class of one to two percent of the population which owns the means of production, while the remaining population would constitute the subordinate class. A narrowly defined dominant class and broadly defined subordinate class, which encompasses extremely broad and diverse groups presents difficulties in analyses. He suggests additional criteria and asserts that the dominant class should include all those who have control over the means of remuneration. This categorization, therefore, includes the technical bureaucratic elite, the landed elite, the military and the entrepreneurial class.

A sophisticated analysis of class requires that we look at class not simply in terms of the bourgeoisie and the proletariat, but in terms of power relations among different class segments. In the context of Pakistan, the analysis of class would be almost impossible if it were to depend on the limited information regarding ownership

of property, and the constantly changing areas of control the managerial class can exercise over distribution. Thus, in the present analysis, power relations are considered the primary guide to an understanding of state and class action in Pakistan.

With this broad-based framework, the following chapters will trace the history and development of state and class formation in Pakistan. The changes in the nature of the state and class have impacted the course of industrial policy--an examination of which is to follow.

CHAPTER III  
HISTORICAL ROOTS OF POWER STRUCTURE IN PAKISTAN

To comprehend Pakistan's specific case of development, we have to understand its creation in the context of Hindu/Muslim separatism in India springing from the socio-economic differences between the two communities. Communal differences determined the differences in economic infrastructure of the two countries because Pakistan inherited the relatively less economically developed areas of India because they were Muslim majority areas. Therefore, it is important to trace the roots of communal differences.

Evolution of Identity and Difference: Indian Muslims

The awareness of separate identity among Hindus and Muslims has been traced by some to the ascetic Mughal King Aurangzeb (1659-1707) who tried to Islamicize the entire Mughal governing administration, and during whose rule religious discrimination created resentment among Hindus. Others, like Mohandas Gandhi, relate it to the advent of the British in the Indian subcontinent. Still others trace it to the War of Independence (1857), called a Mutiny by the British when the two communities' separate interests surfaced visibly.

Since the Muslims had been ruling India before the British took over, they spearheaded the movement against the British. An immediate result of the 1857 uprising was the complete ostracization of Muslims from the political system. Hindus did not have as much at stake, therefore their role in the event was comparatively less significant.

After the uprising had been put down, Muslims were relegated to the status of second class subjects. The British were not as suspicious of Hindus making it easier for Hindus to prosper as a community. Hindus learned English without much ado, whereas Muslims continued to cling to Persian--a language they had introduced in the courts, and that was as foreign to Hindus as was English. This gave an advantage to Hindus that was difficult to overcome for Muslims. Having been dislodged, the latter's resentment could be seen in their refusal to adjust to the new status quo, and to work within the new limitations imposed by the new colonizers.

By the late nineteenth century, Muslims as a community were not prosperous. They were dependent upon fixed incomes for they had been inducted into the military and administration under the Mughals. Historically, they avoided business, specifically commerce and trade. Additionally, there was a slight social stigma attached to trading and business so that Muslims deliberately stayed away from these occupations, the main reason why there were so few Muslim entrepreneurs in India and Pakistan in the 1940s. Trading was carried on through Bombay, Calcutta, and other coastal cities in the South--areas where Hindus constituted a majority. Also Hindus constituted the large majority in India so that they tended to be in a large number of businesses by virtue of being larger in number.

### Partition of Bengal and Creation of the Muslim League

In 1906 Muslims organized their own political party, the All India Muslim League,<sup>1</sup> as a counterweight to the British-inspired, Hindu-dominated Indian National Congress.<sup>2</sup> The Muslim League's agenda lay not so much in social reform as in its demand to safeguard the rights of Muslim bourgeoisie in pre-partition India by ensuring them equal representation at all levels of government. In the words of Angus Maddison (1971, 74) "the motivation was essentially bourgeois nationalism, its religious content was as much anti-Hindu as pro-Islamic."

One of the first incidents that brought bourgeois nationalism and communalism to a head was the partition of Bengal<sup>3</sup> in 1905 and its subsequent annulment in 1911. The partition of Bengal benefitted Muslim but not Hindu Bengalis. While the largely agricultural and predominantly Muslim East Bengal with its new capital in Dhaka thrived, the Hindu majority in West Bengal with its capital in Calcutta--the industrial center of united Bengal, suffered after being cut off from their traditional sources of raw material. Therefore, in 1905 Hindu

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<sup>1</sup>The Muslim League was established by Muslim bourgeoisie to secure their interests following the partition of Bengal and Hindu bourgeois opposition to the partition.

<sup>2</sup>The Congress, created in 1885 by Alexander Hume, was considered to represent Hindu interests under the rubric of Indian nationalism, an arena for coopting Muslim interests.

<sup>3</sup>Lord Curzon, viceroy of India at the time, partitioned Bengal in 1905 into East and West Bengal so that the large population and area could be administered more effectively by the British.

activists and Hindu mercantile interests successfully campaigned for the annulment of the partition, which was achieved in 1911. Their success lay in their movement's overly populist Hindu propaganda, and in the boycott of British imports<sup>4</sup> which won the financial adherence and support of the Hindu business community. When the British administration, under pressure from British and Hindu mercantile interests reversed the partition, Hindu-Muslim differences were starkly highlighted.

Gandhi's extreme degree of indigenism<sup>5</sup> alienated a significant portion of Muslims both within and outside the Congress after 1920. Jinnah abandoned his belief in Hindu-Muslim unity, settled in London until he was persuaded to return in 1930 and lead the Muslim League in its demand for Pakistan. Another casualty of Gandhi's emphasis on Hinduism was Sir Allama Iqbal, also known as the poet of the east.<sup>6</sup> Following tensions between the Congress and Muslim League he was convinced that the two communities could not live together. He concluded that not only did they have different interests, they also had

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<sup>4</sup>The sale of British textiles, matches, soaps, biscuits, cigarettes, toys, and liquor all suffered badly, hitting British mercantile interests.

<sup>5</sup>Muslims became increasingly alienated as Gandhi abandoned western dress in favor of a loin-cloth, espoused Hindu values and couched his movements in terms of Hindu philosophy while claiming to be representing all of India.

<sup>6</sup>Ironically, India continues to have poems written by Allama Iqbal about Hindu-Muslim unity as its national songs.

conflicting interests. He, therefore, proposed the idea of Pakistan at the annual address to the Muslim League in December 1930 held at Allahbad (Jalal 1985, 12-13).

The emphasis on indigenism in the Congress led post-1947 India to focus on a Gandhian version of "panchayati raj" (rule of local communities) with emphasis on local culture; the emphasis on separatism led the League-dominated Pakistan to focus on state survival in the 1950s. Therefore, after Pakistan's formation, no indigenous movements for social reform emerged, neither were they encouraged. Some of the deepest social problems of India, e.g., race and caste, were seen to stem from Hindu and not Muslim institutions. It was therefore assumed that the establishment of Pakistan--a separate homeland for Indian Muslims would automatically erode Hindu influence and hence social ills would die away. This responsibility rested upon the existence of the Pakistani state form, not upon the Pakistani people or society. The state was expected to automatically erode social ills because of the unquestionable power vested in it. The political system created in Pakistan relied upon the bureaucracy to formulate and implement change. This led to the creation of a strong bureaucratic<sup>7</sup> tradition in Pakistan, a replica of the British colonial apparatus.

#### Education in India

Education under the Mughals was entirely religious and carried out in madrassas (religious schools) where the Quran was taught in

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<sup>7</sup>Here we will apply Riggs' definition of bureaucracy which is inclusive of both the military and civil bureaucracy. See his "Cabinet ministers and coup groups. The case of Thailand" in International Political Science Review, 1981, pp. 167 and 169.

Arabic. Although the Mughal period was distinguished for its architecture, music, painting, and poetry, these were largely inspired by Persia (Maddison 1971, 15). Similarly, Hindu education was restricted to religious instruction for high castes in Sanskrit. It has been suggested that at the time of the British takeover about a quarter of the total male population had received a few years of schooling though, according to Nurullah and Naik (1951) the literacy rate was about 5 percent.

There existed two distinct strains within the Muslims' attitude to education after the British takeover--the first was dominated by the orthodox clergy, while the second, largely a reaction to the first, was led by the relatively "progressive" (pragmatic) Muslims. Sir Syed belonged to the latter group. During the second half of the nineteenth century some Muslims realized that they were lagging far behind Hindus in almost every field ranging from education to jobs and ownership of lands. Their economic condition deteriorated steadily but they still refused to espouse western education since that symbolized acceptance of British supremacy. To preserve their separate cultural identity they developed centers of religious learning and educated their children in Persian and Arabic.

In the nineteenth century there were attempts at reform among Muslims in the form of religious movements. The decline of the Mughal Empire was ascribed to abandoning of the tenets of Islam. It was believed that Islamic revival would bring back past glory. In this quest Shah Waliullah and Syed Ahmed Bareilvi waged a Jihad (holy war) against the Sikhs in the North West Frontier Province (NWFP) and

Punjab, and later Shah Waliullah's son declared in a fatwa (religious proclamation) that India had come under Christian domination, virtually becoming Dar-ul-Harb (zone of war under Islamic jurisprudence); therefore, it was incumbent upon all Muslims to wage a holy war against the new invaders.<sup>8</sup>

Acceptance of western civilization took fifty years longer for Muslims than it did for Hindus. This is evident from the simple chronological difference between the establishment of Brahma Samaj (a Hindu revivalist movement) in 1828 by the Hindu leader Raja Ram Mohan Roy (1774-1833) and his Muslim counterpart, Sir Syed Ahmed Khan's (1817-1898) Mohamadan Anglo-Oriental College (MAO College) in 1875. Both leaders espoused western values. Ram Mohan Roy was inspired to form his Brahma Samaj movement to rationalize Hinduism. He denounced polytheism and idolatry, attempted to improve the status of women and to temper the caste system. He welcomed the use of English as the language of instruction and was as contemptuous of Sanskrit education as Macaulay. Sir Syed Ahmed Khan, who realized the adverse economic effects of Muslim withdrawal from the political scene, urged the Muslims to cooperate with the British and provided them with the opportunity to acquire an English education and compete for jobs under the British administration. At the MAO College Sir Syed made English the language of instruction with an emphasis on sciences rather than humanities. The MAO College later became a Muslim university.

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<sup>8</sup>Jihad or holy war means more than waging an armed struggle. It encompasses all forms of strife ranging from resistance to self-discipline to armed conflict.

### British Education Policy in India

The British instituted a version of English education in India in an attempt to familiarize Indians with British values and thinking. The educational system was crucial in the creation and development of an indigenous Indian bureaucracy trained to administer India in accordance with British ideas. These officials internalized the same contempt for India as displayed by the British. Some of those ideas inform Pakistani bureaucracy's perceptions to this day.

Many of the famous nineteenth century British philosophers who influenced British policy in India were connected with the East India Company. For example, James Mill, who was a senior Company official wrote a massive history of India, one which showed contempt for Indian institutions, and prejudiced British attitudes towards India.<sup>9</sup> Similarly, Malthus who taught future Company employees economics at Haileybury influenced them with Utilitarianism. The Utilitarians, supporters of competitive entry for the civil service, strongly believed in laissez faire, and scorned state interference for promoting economic development. They relied on market forces to deal with famines, and did not attempt to promote the stagnant Indian agriculture

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<sup>9</sup>Mill's History of British India was an attempt to evaluate Indian society and show its place in the "scale of civilization" and dispel what he considered the silly admiration for oriental despotism. According to him "In India there was a hideous state of society," much inferior to the European even in its darkest feudal age. Mill prided himself on his utter lack of direct personal contact with India, believing that his judgement was all the more justified and authentic because of its very disinterestedness (Maddison 1971, 40).

and industry. Similar attitudes were displayed by the British in the sphere of education. The disdain for Indian education is best illustrated by Lord Macaulay's Minute on Education in 1835:

I believe that the present system tends, not to accelerate the progress of truth, but to delay the natural death of expiring errors. We are a Board for wasting public money, for printing books which are less value than the paper on which they are printed was while it was blank; for giving artificial encouragement to absurd history, absurd metaphysics, absurd physics, absurd theology . . . I have no knowledge of either Sanskrit or Arabic . . . But I have done what I could to form a correct estimate of their value . . . Who could deny that a single shelf of a good European library was worth the whole native literature of India and Arabia . . . all the historical information which has been collected from all the books written in the Sanskrit language is less valuable than what may be found in the most paltry abridgements used at preparatory schools in England.

From this Macaulay concluded that an English education was a must for the Indians who were languishing in ignorance due to their inept system. However, this education was not for the masses, for he pointed out:

It is impossible for us, with our limited means to attempt to educate the body of the people. We must at present do our best to form a class who may be interpreters between us and the millions whom we govern; a class of persons, Indian in blood and color, but English in taste, in opinions, in morals, and in intellect. To that class we may leave it to refine the vernacular dialects of the country, to enrich those dialects with terms of science borrowed from the Western nomenclature, and to render them by degree fit vehicles for conveying knowledge to the great mass of the population.

(Quoted from the text as given in M. Edwards, British India 1772-1947, London 1967)

Following the War of Independence in 1857, British policy in India became even more conservative after the Crown took over formally. The education system that developed was but a shadow of what was originally planned. Thus there were only three universities, but none conducted teaching or conferred degrees higher than a B.A. with a heavy emphasis on rote learning and examinations. They did little to promote analytical thinking or questioning. A knowledge of English was considered sufficient, so that by the next century Indian graduates spoke English and felt alienated from the majority of the Indians.

Primary education was not taken seriously as a government obligation and was financed largely by local authorities. As a result the great mass of the population was illiterate, and at independence 88 percent of the entire population had no access to education or schools. The educated minority displayed the same disdain for the majority as had the British before them.

In a country where only the elite could have access to education made education a scarce resource, undercutting its potentially positive role in social mobilization. In fact, access to the British introduced education created a new class of people in exactly the manner that Lord Macaulay had advised. These traditions became deeply embedded in the Indian civil servants' psyche, for as we will shortly see, the education policy created a particular kind of mind-set in India. This colored postcolonial Pakistan's administration and politics, as the bureaucracy and military were deeply influenced by the educational system introduced by the British in India.

Thus we find that the differences in Muslim/Hindu identity were reinforced by several factors and processes. Political expediency led Gandhi and the Congress to emphasize religion as a factor in political life, bringing out the totally different religious outlooks of the two communities. The Muslim League, with its claims of representing all Indian Muslims, was essentially safeguarding Muslim bourgeois interests. However, the Pakistan movement was more than a Muslim bourgeois attempt at gaining economic advantages. It was a mass movement due to the presence of several other factors such as disparities in economic conditions of the two communities (as opposed to safeguarding economic advantages) and the argument that Muslim culture and traditions were distinct from Hindus'. Furthermore, the dissimilar British treatment of Muslims and Hindus strengthened the Muslim sense of separate identity leading to the Muslim claim that they constituted a separate nation, culminating in the demand and creation of Pakistan.

#### Evolution of Dominant Classes in Pakistan

What is different about Pakistan? We need to study the evolution of the different dominant classes in conjunction with one another in order to understand the evolution of industrial policy and development. This section outlines the experience of the Pakistani state during its first decade. The purpose is to provide an understanding of class formation and the tenuous nature of politics prevalent at Independence in 1947 and the succeeding years. Not claiming to encompass the situation in its entirety, this section will only take some of the

major events that occupied the attention of the state and explain the considerations under which classes operated and policy was formulated.

### The Landed Class

Pakistan, a predominantly agrarian country, with 70 percent of its population living in rural areas, continues to be dominated by a landed elite. At independence, the ruling Muslim League party was dominated by landlords (details in Chapter IV). However, the landlords had a contradictory relationship with the state which at once supported and undermined their interests.

The contention that both India and Pakistan under the British shared the same political traditions is an oversimplification of the issue, as the British Colonial system in India had many facets. Alavi (1972) points out that at the core was a highly centralized bureaucratic viceregal system of authority with limited local self-government. Outside the government political awakening was limited to port cities, while rural India continued to be ruled in authoritarian style. Pakistan inherited mainly the rural areas of undivided India and thus the rural style of politics.

The Punjab<sup>10</sup> and Sind were incorporated into the British raj in 1849, and as the British wanted local support in an area close to the frontier, they interfered less with feudal privileges there than they did elsewhere in British India. Landlords exercised political and

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<sup>10</sup>The Punjab, it must be remembered, included the present-day Indian Punjab as well. The British laid the canal system in the northern districts of the Punjab, creating the canal colonies as opposed to the rain-fed districts. The latter were largely semi-feudal domains where British administrators avoided interference.

spiritual dominance over their tenants. Independence did little to reduce their economic and political status and they were very influential until the 1960s.

A fact that cannot be stressed enough is the existence of a land-owning elite before the British came to India. The British did not create this class, but by favoring it, they extended its existence and size. In order to rule and administer India effectively, the British depended upon the support of certain tribal and landowning interests. For example, NWFP was divided into two kinds of districts, the settled districts and the tribal areas. The tribal areas comprised Malakand, Khyber, Kurram, North Waziristan, and South Waziristan. These districts bordered Afghanistan, and here the British did not attempt to impose their laws. They negotiated with the tribal leaders through a political agent, a practice that has been carried over into Pakistan. The pathans in the settled districts (there was a total of six such districts, namely, Hazara, Peshawar, Mardan, Kohat, Bannu and Dera Ismail Khan) were comparatively more educated and well represented in the administrative structure. The British made land and revenue grants to various tribal leaders and landlords besides making them honorary magistrates, zaildars, and so on. They incorporated many pathans into the local administration after introducing limited self-government in 1932<sup>11</sup> (Sayeed 1980). There were thus several layers of British supporters--the first, the landlords who

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<sup>11</sup>This was an extension of the Government of India Act 1919, taken to the NWFP thirteen years later.

had been given land grants, the second (though more limited layer) was that of administrators and government officials, and third, was the great number of soldiers recruited from the area. These groups were not limited to the NWFP, where the British replicated their policies from the Punjab.

The British had created a network of canals to irrigate the Punjab and parts of what is now NWFP. Not only was this project profitable, it was also used to reward Sikhs and Muslims from the region for staying loyal to them during the 1857 Mutiny/War of Independence. These regions became prosperous in comparison to the rest of rural India. Almost half the male population was employed in the military, from where they received pensions upon retirement which they invested in land granted to them by the British.

Ayub Khan announced that the land ownership situation in Pakistan in the 1950s was as follows: "50% of the available land in Punjab, a little less than 50% in the NWFP, and over 80% in the Sind was in the possession of a few thousand absentee landowners" (Ayub Khan 1967, 87). Although Ayub Khan introduced land reforms when he assumed power, these reforms had little distributional value. In fact, after the introduction of new seed varieties and a more widespread irrigation system, the middle and big landowners' prosperity increased tremendously (Alavi 1976; Burki 1976). The main benefits accrued to the large landowners and while they experienced a large increase in income without an increase in income tax. In Pakistan agricultural income is not taxable because no government has been able to tax agriculture. Land tax continues to be almost negligible and non-progressive. Irrigation

facilities are supplied at the same rate to all so that large farmers benefit more as their per capita use is greater than that of a small farmer or peasant.

In Pakistan's case though considerable income inequalities continue to be prevalent, yet a sharp polarization of classes did not take place. The reason, according to Alavi (Ibid.), lies in the economic dependence of the tenants upon the landowners so that their loyalties are identified with the interests of the landlords. "Political power is thus organized by factions. The faction leader, typically a big landowner, organizes support by a variety of means. Besides support from the share croppers, the core of the faction would include close relatives, who might also be big landlords in the neighborhoods with their own economic dependents. Because economic dependents are tied to landlords in factional politics, as they are tied to them in the economic field, political cleavages are not horizontal along class lines but vertical across class lines" (Alavi 1976).

These cleavages could be seen distinctly in the politics of landlords belonging to the regions inherited by Pakistan in pre-partition India. India's agriculture remained stagnant for the half century preceding independence. This trend continued into the 1950s in Pakistan. Part of the reason lay in the government's policy of price controls, and export levies on farm products. In the 1960s this policy changed with a subsidy for fertilizer and new seed varieties, raising productivity levels.

### The Military

The military option--thrice exercised in Pakistan--depicts the deep involvement of the army with politics. It serves as an appropriate example of Janowitz's (1964) concept of narrowing skill which refers to the tendency of the military elite to become "civilianized" to a greater extent than the civilian elite become "militarized."

At its inception, Pakistan inherited part of colonial India's army which had been trained by the British and had fought two world wars. British practice in India with regard to civil military relations emphasized overall civilian control and the military's aloofness from politics. Ideas of professionalism, equated with political neutrality, were inculcated into the minds of young officers. They were taught to be custodians of "law and order." For the army the nationalist politicians were the greatest threat to law and order and therefore their deep-seated distrust of politicians. The army was involved in the political struggles of the times as its seemingly non-political attitude and suspicion of politicians helped maintain the status quo in favor of the British.

Military recruitment policy during the British times reflected the rural bias of the colonizers. Those with an urban background or higher education were distrusted. Thus, we find that the landowning class was represented in this institution, which served the interests of the rural elite.

The area that is now Pakistan served as the main recruiting grounds for enlisting soldiers and military personnel. Most of the recruits came from the Punjab and the NWFP. The people of these areas

were considered the "martial races." Although at independence Pakistan inherited a Muslim enlisted corps of 120,000 men and an officer corps of 1,000 men, out of these only 100 held the rank of captain or above. At present there are over 300,000 military personnel in the armed forces. Promotion from the ranks to the officer corps was rare (it remains unchanged), although entry to the officer class has been eased by the establishment of cadet colleges, and generally easier entrance exams.

After the 1960s when the military expanded enormously, the family background of officers was no longer considered a primary factor in their recruitment. In general, a large number of officers, with lower middle-class background were able to enter the forces, and brought with them their values and social beliefs. This has changed the whole perspective and attitude of the younger officers, who no longer behave in the Sandhurst tradition, but are more assertive about their religious values. These were especially encouraged under General Zia, when any un-Islamic activities, for example, drinking and dancing, were prohibited and declared punishable.

Over time, therefore, we find that the military's character changed gradually from an elitist family preserve to a wider middle-class base. Presently, the military's ideational values are vastly different from that of some decades ago. This sharp change can be directly ascribed to the enlargement of the recruitment base.

### The Civil Bureaucracy

The civil bureaucracy is also the creation of the colonial regime. The bureaucrats were brought up on the myth of "guardianship," i.e.,

the idea that it was their mission to defend the interests of the people as against the supposed partisanship and personal ambitions of "professional" politicians. To assume that the civil servants were politically neutral and uninvolved would be wrong for they too were promoting the interests of the state.

The civil bureaucracy in British India--the Indian Civil Service (ICS)--consisted of a tightly knit exclusive group which zealously preserved its privileged identity, position and powers. The British had initiated a tradition under which a limited number of senior civil servants held authority over political appointees. It began in 1921, when Indian ministers were appointed for the first time, at the provincial level, under the Government of India Act of 1919. These ministers were to hold certain minor portfolios in provincial governments. The idea of having to work under an Indian minister, however, affronted the British bureaucrats--some of whom resigned in protest. In the face of this opposition, the question of a "proper relationship" between Indian ministers and a member of the Indian Civil Service was widely debated and discussed. It was eventually decided that Indian ministers were to be protégés of the British senior civil servants who would teach them the art of self-government. Thus, the normal relationship between a minister and the secretary of his ministry was reversed. It was provided that in the event of a disagreement between a minister and his secretary, the latter could bypass the minister and obtain orders directly from the governor of the province; the minister would then have no more say in the matter. Despite the often repeated complaints of the Indian ministers, no concessions were made

to them (Alavi 1983, 74). The bureaucrats retained the power to disregard them--a practice that was simply carried over into post-colonial Pakistan.

In Pakistan, political parties have waxed, waned and suffered eclipse. Political leaders have argued and reduced each other to impotence . . . Men of religion have laid claim to complete authority and have achieved almost none. In the meanwhile the state has been run largely by the civil service, backed by the army, which has carried on much as it did before independence. (Callard 1957, 5)

Thus we find that the dominant classes, besides having representation in each others' cadres, displayed similar attitudes with regard to the subordinate classes and politicians. For both of these categories they have had considerable scorn. The notion that the masses should direct the activities of the state was quite distasteful to the dominant classes. They had not only inherited the viceregal and autocratic system of British India, but had also adopted British thinking and attitudes towards the masses and politicians.

This phenomenon came about due to the educational system which not only exacerbated but also reinforced the existing class system. The system of education, in its structural context, continues to perpetuate exceedingly conservative ideas in Pakistan, just as it did during British times.

#### Overview of Civil and Military Bureaucracy in Pakistan

We have discussed how the civil servants in British India were legally allowed to overrule the decisions of ministers and pointed out that the process continued into Pakistan. However, there was a difference: it was no longer subject to ultimate political control

as had been exercised by the British government. The bureaucracy had now acquired a new kind of role and become a force on its own.

An important structural change in the civil service of Pakistan (CSP) that helped consolidate its grip on the government was the creation of the post of secretary-general of the government of Pakistan in 1956. The civil bureaucracy, divided into ministries, had a secretary at the head of each ministry. The secretary was responsible to the cabinet minister of his ministry. The cabinet ministers in turn were responsible to the Prime Minister who headed the cabinet and the government. However, now the secretary-general had direct authority over every secretary of every ministry, independently of the Prime Minister and his cabinet ministers. The secretary-general presided over a committee of secretaries of ministries, which formulated and coordinated policy as a super cabinet, thus reducing political leadership to a mere shadow. The grip and power of the civil bureaucracy over policy have been tremendous since the inception of Pakistan.

Chronologically speaking, the civil servants dominated extensively for the first two decades. Partly, the explanation lies in the political vacuum created by the lack of decisive leadership at the national level after Jinnah's death in September, 1948, and Liaquat Ali Khan's assassination in October, 1951. The Muslim League was torn asunder by the strife within, resulting from intense regionalism. The absence of politicians of a national stature increased the powers of the civil servants. This process culminated in Ghulam Muhammad, a Punjabi bureaucrat, who became the Governor-General of Pakistan.

Ghulam Muhammad gave the civil and military bureaucracies a pivotal role in decision-making. Thus, a trend that existed in colonial times continued and received new impetus under Ghulam Muhammad. He exercised arbitrary authority when he dismissed the Bengali Prime Minister, Khawaja Nazim-ud-Din who enjoyed the confidence of the Legislature. In 1954, the Constituent Assembly (Legislature) was dissolved and the Governor General became more powerful. With the appointment of Chaudhry Muhammad Ali, another civil servant, as Prime Minister in 1955 the domination of the civil bureaucracy was complete. Governor-General Ghulam Muhammad owing to bad health, however, had to step down and gave way to another member of the military-bureaucratic elite, General Iskander Mirza (Kaushik 1985, 44).

In 1956, after the new constitution was framed, Governor-General Iskander Mirza became the President and remained in office until the October 1958 coup. The precariousness of the political institutions is reflected in the fact that during 1947-1958 Pakistan had nine changes in government and seven prime ministers. From September 1956 until October 1958, four individuals occupied the position of prime minister (Kukreja 1984, 56). There was tremendous political instability with a steady institutional development of the civil and military bureaucracies (Laporte Jr. 1975, 41-42). The bureaucrats continued to make and unmake governments, while political loyalties became increasingly divided along regional lines between East and West Pakistan.

Between 1956-58 coalition politics in Pakistan was confused and unpredictable. It was expected that general elections would take place

in 1958 in accordance with the provisions of the new constitution, but after a period of intense political instability, the civilian-military power elites brought about the first military coup d'etat, abrogated the constitution, and imposed martial law with General Ayub Khan taking over the reins of government. Although Governor-General Iskander Mirza asked General Ayub to take over, he was dismissed soon after as well. This act marked the transformation of the bureaucratic state system into a military regime (Ahmed 1980, 9).

Under Ayub Khan, the political system was reshaped to ensure stability. The system of Basic Democracies was introduced in which 80,000 indirectly elected members (known as Basic Democrats) were to elect members of the national and provincial assemblies and also the president of the country. General Ayub Khan became the president and a new constitution was promulgated in 1962, supported by the civil bureaucracy.

The Ayub regime was a civil-military partnership, tilted towards the bureaucracy. Some of the top civil officials were as much a part of his ruling elite as were some of the generals. However, civil servants (e.g., Aziz Ahmed, Fida Hussain, Altaf Gauhar, Qudratullah Shahab) were closer to the president than any general of the army (Gardezi and Rashid 1983, 70). In fact, one of the major causes of Ayub's downfall is attributed to his overdependence on senior civil servants. Under Ayub Khan, the civil servants continued to dominate administration, while the army was ordered to keep from "assisting civilian authorities" as far back as 1958 (Kukreja 1985, 100).

The structure of Basic Democracies was such that some of the Basic Democrats (more than 60 percent were landowners) had to be on local councils whose work was closely integrated with that of the bureaucracy. Thus, the bureaucracy was deeply influencing the local political power holders and bypassing them at higher levels (Gardezi and Rashid 1983, 85).

In winter 1968 there was great political upheaval in the form of massive demonstrations against the Ayub regime due to the socio-economic conditions that exacerbated income inequalities. Political leaders demanded Ayub Khan's resignation but due to factional and regional politics were unable to assume responsibility for forming a new government. Subsequently, the second martial law regime was imposed, this time by General Yahya Khan, on March 25, 1969. It was not a "designed coup" in that Yahya Khan did not conspire to impose it. Rather it was the result of Ayub's resignation calling upon the military to fill the vacuum:

"If there was a central motive in the Yahya Khan interregnum, then it was that the administrative state sought to perpetuate itself at the expense of an atrophied political experience" (Ziring 1974, 404). Rounaq Jahan contended "after the collapse of the Ayub regime, Yahya Khan, the Commander-in-Chief (C-in-C) of Pakistan army, was brought to power by the civil-military bureaucracy. The second martial law was very much a defensive manoeuvre on the part of the military elite to maintain the position which had been threatened by the mass movement of 1968-69" (Jahan 1972, 186).

Although political power stayed with the military civil bureaucracy, yet there was a change in the relationship of the two institutions. The military became dominant and the civil services became a tool of the army high command. In addition to Yahya Khan, six army generals and two civilian officers were the new rulers of Pakistan. Besides these, four serving generals were appointed as governors of the four provinces. This was a deviation from past practice when no serving officer was ever appointed governor or even effective head of civilian administration (M. Ayoob in Varma and Narain (eds.) 1972, 25).

Clearly, the role of civilian bureaucrats suffered an eclipse when the army decided to become the chief architect of Pakistan's political administration. In January 1970 the new regime terminated the services of 303 civil servants including some top CSP officers in key positions (Kukreja 1984, 101).

However, this eclipse did not portend an automatic rise in the military's power position. Following the East Pakistan crisis, the military stood discredited, along with the dominant classes. The political and repressive apparatuses of the state were barely in control while the dominant classes were in crisis as generally their position and place were ensured by the state apparatuses. Thus began a transition period when both the state and classes were in crisis, eventually leading to broader/wider participation in politics in the 1970s and 1980s. During these decades the basic fabric of the civil-military bureaucracy changed in terms of their class basis.

It was not long before the military staged a comeback. Prime Minister Bhutto was ousted by General Zia ul Haq in 1977. General Zia had the support and backing of the newly emergent bourgeoisie. During Zia's eleven years the state could act independently vis-à-vis the dominant classes to a large extent because the latter was acutely dependent for the reproduction of capitalist relations on the state. The propertied and rightist class segments and the army under Zia shared a similar political and economic outlook. The military was now representing not so much the former elite, but the former subordinate classes. The military also became the senior partner in its relationship with the bureaucracy. This was markedly different from the previous relationship between the military and civil bureaucracy under General Ayub. Under Zia, the bureaucracy acted under the guidance of the army. This was made easier due to Zia's use of lateral entry, a system which allowed military officers to transfer into the civil bureaucracy. With this system the pervasiveness of military dominance became complete.

CHAPTER IV  
GENESIS OF PAKISTAN

State and class formation in Pakistan are closely connected with the formulation and implementation of industrial policy there. The type of industrial development that took place in Pakistan (large-scale, consumer-based import substitution industrialization) resulted from the specific manner in which class and state interacted within the limitations of existing material conditions. Pakistan as a weak state was in need of an industrial class, and in the absence of a well-established industrial class, proceeded to create one. To understand class and state in Pakistan and how they influence policy we will examine the:

- political machinery of the state which was initially provided by the Muslim League
- state managers, i.e., the bureaucracy
- coercive apparatus of the state, the army.

Besides the two bureaucracies, the indigenous ruling classes shared political power with the League and influenced Pakistani politics in the early years. A survey of economic development in Pakistan will analyze the situation of capital vis-à-vis the state and indigenous classes, development planning and industrial policy in Pakistan.

### Political Problems in the Early Years

Pakistan was created suddenly--even to its supporters it was unexpected. They confessed that they did not foresee its establishment within their lifetimes (Burke 1970, 8). To understand how this state functioned in its early years, one has to place it within its historical context. Most colonial territories remained whole upon independence but Pakistan was carved out of India and as such it was ill-equipped for the tasks of a fully fledged state by sheer physical and material limitations of both equipment and personnel. For instance, there was only one typewriter in the entire foreign office. Simple equipment, such as desks and chairs in offices, were lacking (Burke 1970). Due to the mass exodus, rioting and destruction had been rampant. Therefore, the insufficient and ill-equipped state machinery had to be mobilized for the arduous task of introducing order into chaos.

### Immediate Problems of the Partition of India (1947)

The experience of the Pakistani state during its first decade provides the historical background for changes in class structure and the tenuous nature of the politics prevalent at the time. The considerations under which classes operated and policy was formulated were numerous and sometimes contradictory.

During the first decade of its existence, the state was confronted with two major problems: First, the constitutional crisis resulting from disagreement in the national parliament about the form of government and division of power between the two provinces (i.e., East and West Pakistan). This disagreement led to the collapse of

parliamentary government. Second, the state with its meager resources was concerned with its own viability and in that context needed international aid. The majority of the population was dependent upon agriculture and was poor. Thus Pakistan developed linkages with the international aid donors and incorporated itself into the U.S. military alliance system.

The partition of India resulted in several problems that other states did not encounter after liberation from colonial powers. For example Pakistan was faced with settling Muslim refugees from India. State machinery was not only deployed for safe passage in view of the mass migrations from both countries,<sup>1</sup> but the problem of resettlement had to be solved as well. This was a difficult problem as there were more refugees who came to Pakistan than the number who left to go to India. The distribution of evacuee property presented a challenge. Also, Pakistan had to set up its administrative machinery from scratch, including setting up its capital city, whereas India was left with the center of government, so that it did not encounter a number of organizational problems that Pakistan faced.

Additionally, the insidious problem of corruption and greed among the people in positions of power also emerged. There were frequent charges of corruption against the provincial governments and Chief Ministers are known to have been dismissed on these charges. While the charges were not untrue, they were often used for political reasons.

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<sup>1</sup>This constituted the biggest mass migration of the century, accompanied also by the largest number of killings, robberies, and other forms of violence.

The state lacked infrastructure. As mentioned before, office equipment had to be procured. There were no libraries so that Jinnah put his personal collection at the disposal of the administrators. The division of assets with India proved Pakistani leaders' fears correct in that the Congress leaders created many unnecessary delays and hurdles in handing over Pakistan's share of assets. Dividing library books and other assets proved physically difficult. Also army equipment that rightfully was Pakistan's share was detained and refused by India in view of the strained relations between the two countries.

Politically all was not well for Pakistan. Strained Indo-Pakistani relations made Pakistan's economy shaky. For instance, in the water dispute over the Ravi and Chenab rivers, Pakistan was in a weak position as the mouths of the rivers were located in India and India released excess water in the rainy season which hurt Pakistani crops, especially rice. Aside from disputes over water, division of assets and liabilities, refugees, etc., a major conflict arose between the two countries over Kashmir, which led to the undeclared Indo-Pakistan war of 1948.

There was extensive confusion and disarray at the time of partition in 1947. The Pakistani state was faced with tremendously difficult tasks of establishing institutions and coordinating their activities. It also sought help from different classes while the latter looked to the state for guidance. The previous system had broken down, while a new one had yet to acquire definite shape.

### Class and State Formation in Pakistan

The conditions which had given rise to Pakistan changed drastically at the time its creation became a reality. Until that time the All India Muslim League, the main proponent of a separate country for Indian Muslims, had been preoccupied with establishing its credentials, and its claims to monopoly in representing Muslim demands, and actively trying to achieve these. When these demands were unexpectedly achieved while they were being framed, the Muslim League found itself in a difficult situation of power. It alone had the right to govern the new state. It had established that right for itself, but having done so, it was ill-prepared to carry out the responsibilities of a governing authority.

Initially the Muslim League was identified with the state, and its members occupied important positions in government. In fact, the criteria for appointment to government positions was League membership. At this point the Muslim League more or less ignored the industrialists whom it had sought out in pre-partitioned India for monetary support. Most of these groups consisted not so much of industrialists as traders and merchants.

Traditionally Hindu communities dominated business in India; Pakistan's creation provided Muslims with opportunities to develop their own businesses without fierce Hindu competition. The Muslim bourgeoisie expected full fledged support from the League. But the League leaders were engrossed in their petty squabbles and more or less ignored this group during the initial years of Pakistan. However,

there was another aspect to this picture--that of the Muslim League leadership's apprehension about the issue of survival, therefore, for them the issue of industrialization went beyond simple patronage.<sup>2</sup> It was also a national question and for that they were ready to lend support and commit the state in the most direct way in the process of production. We will return to this theme later when we discuss economic nationalism.

There was a greater exodus of low income uneducated, illiterate Muslims from India to Pakistan than the Pakistani authorities expected. The leadership in Pakistan was interested in attracting capital from India, not refugees who could not sustain themselves. The country had inherited only 20 percent of undivided India's industrial assets; most of these were owned by Hindus who left for India soon after partition. The task of keeping these factories functioning was rendered more difficult, if not impossible, without the skilled workers and managers who migrated. The state was under pressure to find able managers to run these industries efficiently; on the other hand, the state had to reward those who had supported the League's efforts for establishing Pakistan. Thus a combination of conflicting motives lay behind the government's industrial agenda--as confusing and contradictory as the situation prevailing at the time.

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<sup>2</sup>There was a distinction between industrialists as a group and industrialization as a goal. The Muslim League ignored the first and paid attention to the second at the policy level, for industrialization was linked to survival.

### Class Basis and Politics of the Muslim League

A general impression exists that the Muslim League consisted of drawing room intellectuals, titled landlords and other privileged gentry. Jawahar Lal Nehru, leader of the Indian National Congress, often accused the League of being a reactionary organization. Indeed, at inception a prominent role was played by Nawab Viqar ul Mulk and Nawab Salimullah at Dhaka in December 1906. The Muslim League was created to safeguard the interests of Bengali Muslims in the aftermath of the partition of Bengal in 1905. The partition created ill feelings between the relatively well-to-do Hindu Bengalis who dominated the entire province and the majority of the Bengali Muslims who were peasants and in debt to the Hindus for generations. Some famous Muslim League (ML) leaders, like Nawabzada Liaqat Ali Khan, were big landowners from Muslim minority areas, and therefore the charge that they wanted a separate state for their own economic interests carried credence at the time.

After the Indian Councils Act of 1909 recognized separate electorates, the Muslim League expanded its activities, though in its initial years it was not very successful. Only after 1932 did the League start working for a separate Muslim state seriously and decide to gather all the Muslims under the unifying banner of Islam. Islam was the only idea that gave Muslims a sense of identity. The League had many factions within it, ranging from Muslim professional classes educated at Aligarth to rich landowners and landless socialists. Trying to unite the different factions, the League's leader, Jinnah,

stated that "the League is not against any interests among the Muslims" (Sayeed 1960, 226). Although the League was dominated by the conservatives, it could not afford to alienate any other group or viewpoint.

There is no denying that the League membership was predominantly composed of landlords. Out of its 503 members, 163 were landlords, 145 were lawyers with a small sprinkling of commercial classes from Bombay and Calcutta, the trading centers of undivided India (Sayeed 1960, 225). Whilst being a relatively underdeveloped group among Muslims, the traders, retailers and contractors contributed a significant amount of money to the League. However, they often requested the Muslim League leaders not to publicize their contributions as they feared Hindu wholesalers would penalize them for their support (Ibid., 224).

In the areas that came to constitute Pakistan, Punjab contributed the largest share of landlords--51, followed by the United Provinces and Bengal. Proportionately Sind's share was the highest in the Council--15 out of its 25 members were landlords. Baluchistan and the North West Frontier Province (NWFP) barely had Muslim League membership. The Congress was strong in the NWFP due to the appeal of Congress supporter Khan Abdul Ghaffar Khan, better known as the Frontier Gandhi. In Baluchistan the Sardari system<sup>3</sup> made political

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<sup>3</sup>Sardari systems, formally introduced by the British in Baluchistan depended upon sardars (local tribal chieftains) for the administration of the large desert province with sparse population. At the head was the Khan of Kalat, who was in direct contact with the political agent on the one hand and the various sardars on the other hand. They received salaries and allowances from the British in return for British armed presence in the province. The sardars enjoyed absolute autonomy

parties meaningless. The financial contributions of the Muslim majority provinces, however, were not substantial and it was really the merchants and industrialists of Bombay and Calcutta who contributed large sums of money to the League (Ibid., 224).

In 1947 the Muslim League had three distinct divisions within its membership based on cross-cutting interests of class and identity. First, the Mohajirs who had migrated from India, and consisted of the urban professionals and traders and merchants and industrialists. These class factions came together due to their shared interests and beliefs. Because they were immigrants, they shared similar problems of carving an economic space for themselves at the individual level and hence there followed a sense of identification among them. It is important to note that though they came to be known as "Mohajir" (literally immigrants), they belonged to separate regions and ethnicities. The Mohajir factions (educated professionals and bourgeoisie) were powerful in the initial years and thus their belief in liberal politics, laissez faire economics and secularism was dominant in the political arena. Government policies, therefore, were colored by their thinking. Second, the local elites, made up of landlords from the various regions of West Pakistan, though predominantly the Punjab, believed in the establishment of a conservative Islamic state and a centrally managed state economy. Third, the marginalized Bengalis who had a separate social and political agenda for their

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over their respective areas and tribes. This autonomy also included voting decisions for the entire tribe.

region but who had lost to the other two factions in the League at the very beginning. The League government expressed a deep mistrust of the indigenous elites who had been League adversaries in the not too distant past. In the NWFP, Congress had extensive support until 1946; the Unionist Party was influential in the Punjab where it had formed a coalition with the Congress and Sikh Party before partition. Many influential Muslim figures in these areas had distanced themselves from the Muslim League as they usually shared power with other religious communities such as the Sikhs and Hindus. The local Muslim landed elite changed allegiance only after it became obvious that the Muslim League would win its cause.

In 1947 the Mohajir faction of the Muslim League dominated the state machinery. As mentioned before, the Mohajirs consisted of urban professionals such as lawyers, teachers, journalists, and progressive minded people largely belonging to the middle class. Besides the urban professionals there was the subclass of merchants and traders who did not directly participate in the political process, yet who certainly brought with them their culture and different way of thinking. Coming to a country where they had no other links except those of religion, these people soon found themselves threatened and resented by the local people, especially the local elite.

During the first decade there was a quick succession of governments one after another. Initially the Mohajir group controlled government, but after Khawaja Nazimuddin took over as governor-general, politics within the country changed drastically. Power passed from the urban professionals to the landed interests. After Nazimuddin.

dismissed the Prime Minister, Ghulam Mohammad, he began to seek and extend support to landed gentry actively. Thus Mumtaz Daulatana, leader of the progressive wing of the Muslim League in Punjab, who demanded the nationalization of private industry and land in the Punjab was dismissed as Chief Minister of Punjab and replaced by Sir Feroz Khan Noon, a big landlord from the same province. Similarly in the NWFP Abdul Qayum Khan, the Chief Minister with a middle-class following, was replaced by Sardar Abdur Rashid who was supported by the landed elite of the province. Finally in the province of Sind, M. A. Khuhro was replaced by Pirzada Abdul Sattar. While the former was a landlord, he was known for his constitutional stance and support of Westminster style democracy (Burki 1980, 31). These changes indicate indigenization of politics in Pakistan. The more progressive elements gave way to the more conservative and traditional elements on the political arena.

Leadership passed into the hands of the landed elite who were conservative and felt uncomfortable with debate, discussion and majority decisions. This group believed in an authoritarian style of decision-making, and brought this bent into League politics. This is important because not only did their membership change decision-making processes within the League committees, their membership also introduced a different outlook in governance. The Muslim League was clearly run by the landlords and as the League occupied state power, therefore the state reflected these interests in its policies (Burki 1980, 32).

### Bureaucratic Management

Pakistan did not create a totally new formal system of management. It was convenient to continue to retain the system that had been functioning in British India. The bureaucrats came with a different mindset than the landlords. Indeed Alavi's assertion that the bureaucracy played a role in which it served landed interests, as it belonged to that class, is questioned. According to Muneer Ahmed (1964, 53) only 13 percent of the bureaucrats owed their social origins to landed gentry, while 64 percent came from families where the fathers were also in government service. According to a more recent survey (1979-80) only 25 percent of the new recruits to the civil service come from families where the fathers are engaged in agriculture (quoted in Kennedy 1987, 120). Furthermore, it is asserted that the background of the new recruits had not changed substantially between 1960 and 1980, thus proving that very few of the bureaucrats directly represented landed interests. In fact, according to Kardar there existed active animosity between the British style educated bureaucrats and the conservative landlords. They represented different outlooks and related to different interests. The bureaucrats perceived the landlords as exploiters who were living easy life styles off inefficient cultivation of land, with attitudes reflecting the past when their authority and influence was unquestioned. The landlords on the other hand perceived the bureaucrats as urban people without the power or social status to challenge them. They were called "baboo" (clerks with lower-middle or middle class backgrounds) who through education had achieved high

position and status (Kardar interview, 1989). The phenomenon was considered an artificial creation of the British. Though it cannot be denied that the landlords also acquired strength due to British support in return for allegiance, yet they existed as major landowners in their own right before the British cultivated them.

This gives a new perspective to the thesis that the bureaucracy was a guardian of landed interests. The landlords did not send their sons into the bureaucracy in general, but wanted them to join the Central Board of Revenue (CBR) which dealt with land taxation--an area where their interests could be safeguarded.<sup>4</sup> This does not mean that the bureaucracy and landed interests were actively opposed to one another--that would be wrong. Their interests did at times converge and that is when they cooperated. However, they were not champions of each other's interests and would not go out of their way for one another.

Thus the politics of the country was quite complex. There were diverse power centers contending for state power with one another. On the one hand was the competition along class lines, e.g., between the bureaucracy and the landlords, and on the other hand, there was competition along ethnic lines, e.g., in governance, which at times would cut into class lines and at other times champion a class within a particular ethnic group. There were intense ethnic tensions among

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<sup>4</sup>Shahid Kardar (in his interview with me on December 13, 1989) argued that in fact the Central Board of Revenue was the only sector within the civil bureaucracy in which the landlords needed direct representation for safeguarding their interests.

the Bengalis and the four ethnic groups in West Pakistan. These initially erupted in the language issue, and later in the constitutional crisis.

No one wing of Pakistan was allowed to dominate by itself. Thus the position of the head of state had to rotate between residents of the two provinces. Such provincialism showed itself in every facet of the country's life, including industrial policy and development planning. In this context the role of the Bengali chief of the Pakistan Institute for Development Economics (PIDE) cannot be denied. Based on his own personal ethnic identity and interest in the issue he was the first person who proved that West Pakistan was exploiting East Pakistan.

To conclude this section, it was Islam that was the binding force in the absence of any other concrete identity before the creation of Pakistan. However, once the country came into existence, different factions and groups started vying for power with each other. The landlords of Sind, Punjab, and NWFP had their own separate agendas; there emerged internecine rivalries between the provinces resulting in quick changes of government. The bureaucracy was put in charge of policy and administration and gradually gained control on its own. Until 1958 this group administered the country after which it shared power with the military. The emergence of the military-bureaucratic oligarchy will be discussed later in the chapter.

### Development Planning and Industrial Policy

The imperatives that impinged upon the state ranged from pressures that were the result of particular ways of thinking, particular material conditions prevailing at the time, and political exigencies. Additionally, in Pakistan's case, the imperatives were not the result of historical necessity but overnight necessity. Pakistan was formed out of undivided India, and therefore what it inherited had not been developed for the needs of an independent country. Pakistan's economy, and particularly its systems of transportation, were geared towards the metropolitan areas of India. Therefore, its story of industrial planning is slightly different from other third world countries.

#### Government Policy Enunciation

Shortly before the Second World War ended, the British Indian government created a Department of Planning and Development to prepare development projects to be launched after the war. The provincial governments prepared many projects which they deemed important for their regions and which were to be implemented with help from the central government (Waterston 1963, 13). Therefore in 1947 the Pakistani government was equipped with a skeleton of projects drafted before partition, which it now set to work upon immediately. This made it possible for the government, despite the enormous difficulties, to give immediate attention to economic development and establish institutions dealing with the issue (Waterston 1963, 13).

The state made its First Industrial Policy statement in 1949.<sup>5</sup> This statement was preceded by a conference on industries in December 1947 (four months after Pakistan's establishment), a fact that reflects the state's preoccupation with industrialization. At this conference, representatives of the central government, the provincial governments and the princely states met to chalk out a strategy. It was decided that 27 industries needed to be established in fields such as cotton and jute. Most of these products had to be sent to Bombay and Calcutta in India as the factories were located in each metropolis. The Industries Conference resulted in the basic statements of the industrial policy of 1948 when it was announced that the private sector could invest anywhere except in arms and munitions manufacture, electricity and power generation, and railway wagons, telephone, and telegraph equipment.

A Planning Advisory Board was also set up at this conference. This was composed of representatives of the private sector and was to advise the government on matters related to planning and development, reviewing progress in implementing plans, and eliciting public support for the development effort. The Planning Advisory Board was assisted by a series of Industrial Boards and committees set up by the central and provincial governments (Economy of Pakistan 1948-1968, 1968, 263).

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<sup>5</sup>Policy statements are significant in that they are general announcements that clarify the government's stand, position, perspective and wishes for the public. They also serve to delineate what the government is willing to do.

It is meaningful that the state convened an Industries' conference so soon after independence, established the Advisory Board that had private sector representatives and then passed the Industrial Policy Statement. In effect, this amounted to the state asking the private sector what it needed, and then proceeding to grant it the necessary support through its public statements.

In 1951 the First Six Year Development Program was adopted.<sup>6</sup> It enunciated the infrastructural activities the state was to undertake for the development projects it intended to initiate. It also included the projects that the Development Board, set up in 1948, had chalked out. However, this was in no sense a detailed plan and was superseded by the First Five-Year Plan (1955-1960).

The first full statement of economic problems of the country and the proposals to handle them came from the Report of the Economic Appraisal Committee (published in 1952 and revised in 1953). This is a thorough statement of the government's economic policy logic, its priorities, and bias in favor of ISI rather than EOI (Lewis Jr. 1970, 5). It also declared the government's policy of controls and regulations, especially with regard to foreign exchange, thereby putting the state in a powerful position.

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<sup>6</sup>This was a listing of targets and goals and was hurriedly drawn over a period of three months so it could be incorporated into the Colombo Plan for Economic Development in South and Southeast Asia. This also demonstrates the international concern for "development" at the time, and the felt need for including these plans in the agendas of regional organizations.

Created in 1953, the Planning Board came to be known as the Planning Commission after 1958 when Ayub Khan became President and Chief Martial Law Administrator. Its powers were significantly enhanced and it became a powerful planning agency in Pakistan, with the responsibility of writing the development plans. Ayub Khan took a special interest in the working of this organization.

Besides the planning agencies and credit institutions, there were a number of trade controls and tax laws that controlled and directed industrialization through a complicated system of incentives and controls. These included the institutions and laws/statutes inherited from British India. It also included the creation of the Tariff Commission. Initially the Open General License System was introduced that allowed importers to freely purchase any item from abroad; however, soon after the Korean War boom during which the prices of raw cotton and jute sky-rocketed, Pakistan's foreign exchange reserves declined with a 68 percent and 50 percent decrease in jute and cotton prices respectively (Bhatia, 1979, 80 quoting Griffen and Khan, 1972, 126). Thus a more formal system of controls was devised in response to situations as they arose. Also after the mid-1950s, the Harvard Advisory Group (HAG) became active in Pakistan's development planning and it favored indirect controls. This system was developed and Pakistani economists were trained to learn and design their models in accordance with HAG thinking. Furthermore, while Pakistan had a sufficiently well-developed system of progressive taxation, it was ineffective as the big taxpayers evaded taxes successfully, while the smaller industrialists' taxes did not constitute a substantial sum

even though they paid them. However, Lewis (1969) and Papanek (1970) contend that this phenomenon contributed to industrial expansion. The industrialists were able to make large profits which were reinvested in the economy. Protection and tax holidays for infant industries were other ways of promoting industrialization.

Over the course of a decade elaborate machinery for framing economic policies and programs was developed. Specific institutions were set up to tackle different sectors and aspects of the economy. With regard to the industrial sector, the state proceeded to establish credit institutions, built infrastructure, etc. A detailed discussion follows.

#### Creation of Organizational Base

Organizationally, the state provided infrastructure, with overall planning through various ministries and planning boards. It also participated actively in industrial expansion by providing industrial credit, and by investing directly in industry. After independence, industrial investment was considered to be a risky proposition and private credit was unavailable for the purpose. The private sector, lacking expertise and existing in a country with an uncertain future was willing to invest only in short-term speculative projects promising high profits.

##### 1. Development of infrastructure

Because industrial development was one of Pakistan's major priorities, it was willing to pursue it at a high cost. According to Papanek:

Rapid development of industry is not unusual, but the process was especially dramatic in Pakistan. Its rate of industrial growth exceeded that of other under-developed countries despite the fact that it could not draw on prior industrial experience. The ability of Pakistan's government to step up its rate of investment, especially in developing infrastructure, was unexpected. [Emphasis mine] (Papanek 1967, 25-26)

Development of infrastructure was state responsibility and was treated like a monopoly by the state. In particular the state took control over transportation and power. In the former the construction of roads and railways was emphasized, and it was believed that wherever the government built roads economic opportunity would increase and development would take place. Power generation was important for the functioning of industries, which made it an important resource allocation area, yielding power to whoever controlled it. The state retains its monopoly over power generation to this day<sup>7</sup> resulting in tension between the central government and the provincial governments of Baluchistan and NWFP.

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<sup>7</sup>State control over power sources has created resentment and friction in Baluchistan which has one of the largest natural gas deposits in the world, over which the central government has monopoly, and which ironically was supplied to industries in Baluchistan last of all, i.e., after it was distributed in the rest of Pakistan. The provincial government receives only a fraction of the revenues from this source. Similarly, NWFP is resentful of the central government's monopoly over its electricity generation which is supplied to most of Pakistan. This provides an advantage to the other two provinces, making it more difficult for entrepreneurs to compete, as they have to pay heavy freight charges due to their physical distance from the major markets in the Punjab and Sindh. This was highlighted at the "Seminar on Industrial Productivity and Investment in Under-developed Regions of Pakistan with Particular Reference to N.W.F.P.," 29-30 November 1989. Sponsored by Sarhad Chamber of Commerce and Industry in collaboration with the United Nations Development Program (UNDP).

## 2. Setting up credit institutions

The state was interested in granting loans, but only to big industrialists. Therefore, small scale industries' development suffered. (For detailed discussion, see Kochanek, 1983.) Credit institutions were important because there was not enough private investment in industry. The state thus took it upon itself to provide easy loans to promote its goal of industrialization. The formation of formal credit institutions began in 1949 with the creation of the Pakistan Industrial Finance Corporation (PIFCO) to provide credit to existing large-scale firms. In 1961 PIFCO was restructured into the Industrial Development Bank of Pakistan (IDBP) with its scope widened to include new firms and narrowed to medium-sized units. Similarly another lending institution, the Pakistan Industrial Credit and Investment Corporation (PICIC), was established in 1957 to make loans and equity investment for the establishment of new large-scale enterprises or expansion of old ones. In their initial years both lending agencies were cautious. Their main criterion for lending was based upon the security of return; thus they tended to lend to the established big firms, at the expense of small businesses, whose need for capital was much more acute but who were more or less ignored. Lending to small firms was risky while the ones considered "safe" could often finance their own ventures from profits earned from trade or existing industrial enterprises. However, in the 1960s the two credit organizations began to lend more widely.

Another important institution that the state created for industrialization was the Pakistan Industrial Development Corporation

(FIDC) in 1950. It became active in 1952-53. The PIDC was to invest in areas where private enterprise was unwilling to venture, either because the initial capital involved was considerably larger than family-run businesses could pool, or the gestation period for the particular industry was too long, in which case unpredictable political conditions got in the way. Private entrepreneurs were unwilling to invest when they were unsure about taxes or import allowances or foreign exchange availability. The PIDC was created by the state to prevent governmental changes from affecting its industrialization strategy. The PIDC not only enjoyed active government support, it was also allowed sufficient autonomy in its own decisions, without interference from other ministries, to be effective. Being one of the most powerful governmental bodies, it could approach and negotiate with the other governmental institutions as an equal and not as a supplicant. It also had ease in obtaining land, power, transport facilities and permission to import to facilitate its goals (Papanek 1967, 91-104). The establishment of these institutions demonstrates the state's commitment to large and medium scale industry.

### 3. Trade policy and controls

These constitute important policy measures through which the state subsidized and protected particular industries (to be discussed in detail in Chapter V).

To conclude, the state was willing to invest, but only in large-scale enterprises. It only helped secure parties (these tended to be large industrialists), and it only promoted import substitution

industries. It ignored the small businessman who was in need of capital and could utilize it more efficiently than the big enterprises (Kochanek 1983, 77).

#### Premises about Industrialization

Industrialization was the dominant development theme among newly independent third world countries in the post-World War II years. Very briefly, the West was perceived to be advantaged because of its technological superiority and consequent industrial productivity. Western domination of the world was interpreted as a consequence of its industrial revolution; third world leaders also believed that the West had purposely kept its former colonies underindustrialized and technologically "backward" so it could continue to dominate them. Industrialization was considered to be a key asset which nations aspiring to be independent must achieve since it was equated with economic development. Pakistan's policy makers considered industrialization to be among the most important national goals, as it alone could alleviate Pakistan's dependency on foreign economic aid.

Most Pakistani policy makers operated on the premise that industrialization was synonymous with economic development. In a limited sense they were not incorrect; industrialization does generate faster economic growth and create capital that makes an economy strong. However, the mistake of the initial years was to base economic development entirely upon the steps associated with industrialization. Agriculture was totally ignored and it remained stagnant during the first decade of Pakistan (Bose 1983, 1103-1104); in fact, there was

a serious threat of famine following a particularly bad crop due to absence of monsoon rains in 1952 and 1953.

At the time of its formation, Pakistani policy makers deemed the private sector to be the major source of industrialization. Thus the government provided it extensive incentives for that purpose. It was also assumed that comprehensive bureaucratic controls were the best method of allocating scarce resources to achieve equity and efficiency in the economy. Furthermore, the government perceived reliance on raw material exports negatively. Rapidly declining terms of trade, and the view that world demand remained unchanged caused an extreme emphasis on import substitution (Lewis 1970, 3-4).

During the 1950s the terms of trade were unfavorable to the producers of raw material so that exports were thought to contribute little to the country's economy. The policy makers assumed the world demand to be more or less inelastic, so that they did not expect any substantial change to occur in the country's position and foreign exchange earning capacity. The policy logic of establishing indigenous industries resulted from the fact that raw material exports were not profitable. Also the country had to buy back manufactured cotton and jute at higher prices. It was thus considered expedient not only to industrialize but to implement import substitution industrialization.

The Pakistani state and policy makers considered private ownership of the means of production to be the most important vehicle for industrialization. *laissez faire* philosophy dominated thinking, and liberal economics was the mode of formulating policies. The private sector was considered to be important as it alone could be "dynamic"

in the process of ushering in industrialization. Thus there was emphasis on this sector and the state courted private investors to achieve its goal.

#### The State and Bureaucracy

While the private sector was given importance, policy makers also felt that in view of the limited amount of resources, it was important to distribute these in the most efficient manner possible. For this purpose the bureaucracy was put in charge of resource allocation. This gave the bureaucracy enormous power and prestige. However, it was placed in a contradictory position. On the one hand it was responsible for seeking out, strengthening, and encouraging the private sector, so that the private industrialists would invest. On the other hand, since the bureaucracy had the authority to distribute state sponsorship and favors at its own discretion, it acted as a powerful organization. Thus it was in a potent position of giving and granting and it was also in a position of need, supplicating investments--both on behalf of the state.

In accordance with the idea of utilizing scarce capital, the state bureaucracy encouraged the private entrepreneurs to invest in whatever areas of the economy they preferred. Limited capital availability meant that the state would reserve public sector investment for industries like defense and communications (Economy of Pakistan 1948-68, 1968, 75). The rest was "laid open to the private sector." However, it was not open to all types of private investors--it only encouraged and promoted big industrialists.

While the state set up elaborate and complex machinery for carrying out its policy, this complicated method of control also helped mystify state power and authority. There was no monolithic bureaucracy which could be targeted. The bureaucracy was divided into various ministries and commissions, with different areas of control. Thus the state created competition and cooperation among these sub-sectors of the bureaucracy, gaining ultimate overall control.

#### Economic and Political Rationale of ISI

In the west, ISI was brought about "naturally," as part of a process of demand and supply. In the case of the third world, it was a policy tool whereby governments deliberately decided to increase the share of domestic producers in the home market faster and at a higher level than would occur under "natural" import substitution.

Pakistan has followed a policy of ISI since its inception. While it has attempted to initiate export orientation, its feeble ventures in that direction have had a negligible effect on policy outcomes. This is both because its industries have been heavily protected under ISI and because its industrial class, specifically larger and medium-scale industrialists, have been pampered.

Import substitution means trade protection for infant industries until they can compete internationally. Most countries in their need and desire for industrialization usually start out with ISI so their industries may at least be established and capture the domestic markets.

Producing items that were imported is attractive as it would ease the balance of payments problem and simultaneously fulfill the country's aim toward industrialization. In general, countries poor in capital and technology are in debt and a major portion of their export earnings become interest payments on the loans they procured from lending agencies. ISI appears to have the ability of reducing imports and thus saving the country's foreign exchange.

Tariffs on capital and intermediate industry tend to be lower than on final products. The reason is obvious--to discourage imports of consumer items and to encourage industrialization by allowing potential industrialists to import machinery at lower tariff rates. Thus tax/tariff policies were formulated to initiate a particular kind of industrialization. Protection, subsidies and incentives to the private sector as well as resource allocation became important tools for promoting ISI policy.

ISI was the traditional way of establishing national credibility with the public. Aside from the basic principle of gaining public support through massive industrialization, two factors colored the course of industrialization in Pakistan. First was the government officials' and political leaders' fear that Pakistan might not survive in a threatening environment emanating from India<sup>8</sup> and hence their

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<sup>8</sup>Various predictions from Indian economists politicians regarding Pakistan's feasibility asserted that a state extensively dependent upon India for trade and industry could not sustain itself. The Congress asserted that Pakistan was an absurdity and the whole experience would teach the Muslim League a bitter lesson. Nehru reassured the Indians to accept Pakistan's existence as "sooner or later the two would be re-united." Such statements and predictions

emphasis on industrialization. Second, this perception was reinforced by the political tensions existing between India and Pakistan (documented earlier). That Pakistani planners and political leaders attached considerable importance to industrialization is reflected by the fact that Pakistan convened the Industries Conference as early as December 1947, a mere four months after the inception of the country.

#### Class and State

What was the role of the state? It was encouraging private enterprise, though not particularly the big families from pre-partition India, in fact a number of new ones came up. This lack of support to the big families from pre-partition India had to do with (a) the Muslim League politics of trying to secure high government positions, and abandoning/neglecting its traditional supporters once Pakistan was achieved; (b) the rapid decline of the League in Pakistani politics and in its mass popularity. Quick changes of government meant that (a) the politicians were preoccupied with their own political wrangles, and (b) these politicians could not support the people they would have supported were they in a more secure position.

Insecurity, distrust, and instability prevailed everywhere in Pakistan. Under these conditions it was important to have contacts/connections with the permanent government machinery, fertile grounds for the emergence of big business, which the state courted. The state

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made the League leaders, especially those who had migrated from India, more determined to make the country a permanent political reality through massive and quick industrialization (S. M. Burke 1970).

needed a narrow base of industrialists who could be controlled easily and who would set up industry in areas that the state had set up as priorities. This was planned industrialization. Such an attitude from the state was also reinforced by what economic models of laissez faire interpreted as "irrational" economic behavior, i.e., the new industrialists' conspicuous consumption, low saving rates, and other "economically wasteful" activities. It appeared that these entrepreneurs were not sufficiently interested in reinvesting, which was considered "logical," "rational" behavior. Planners had visualized the development process to be within the principles of economic assumptions. However, the industrial class was not entirely under the control of the state, so that after the initial profits were obtained, these classes began to behave in a manner incompatible with the developers' viewpoint. As they were not entirely under state control, though they certainly enjoyed state patronage, they enjoyed a small degree of freedom of action.

The state was eager to create a new class. It had no clear idea of who this class would be or how big its social structural base would be. The state claimed that it had no preferences of its own, but at the same time ended up not promoting small and medium industries (SMIs) because these were risky propositions at the time. As a result, agriculture and small businesses suffered. While the government followed apparently innocuous policies, it defeated the interests of the groups without political clout.

Although the agricultural sector suffered as a whole, landed interests did not. The status quo was maintained. No reforms were implemented which had been promised by the ML to the Punjab Communist Party in return for its support. Thus, the lot of this class did not improve, and nothing was done to remove the British laws against grain movement (while the import policy was promptly changed after partition). We can safely assert that this class was not actively promoted by the state in the same fashion as the industrial class.

#### Conclusion

The central theme, that class, state, and development influence each other, is borne out by Pakistan's experience, especially during its first decade. The examination of the Muslim League government--the political machinery of the state--informs us that its limitations and aspirations impacted the direction of politics in Pakistan. The power grabbing tendencies within it and the intolerant attitude toward other regional parties, for example, the Congress Party in the NWFP or the Unionist Party in the Punjab, resulted in the inarticulation of opposition parties. This attitude did not nurture a democratic foundation; instead, it culminated in a weak state, eventually giving rise to praetorianism.

Class structure in the uncertain atmosphere of the 1940s and the early 1950s when the politics of the country was protean and completely unstable underwent a change. The view that Pakistan inherited its class structure from India, not incorrect in its general stance, needs to be modified. At birth Pakistan did inherit a particular class

structure, but this was soon transformed as new balances emerged between classes, not to mention the mushrooming of totally new classes which vied for power with the traditional elite. For instance, the industrial class, a totally state-sponsored phenomenon, successfully competed for state favors with the agricultural elite, even though the latter were well represented in the political apparatus of the state--the government. Thus the role of classes in their structural aspect experienced change in different areas, most notably with the formation of the industrial class. The challenge to authority of the traditional power elite crystallized in the form of frequent changes of both central and provincial governments. The role of this elite was questioned by different segments of the emerging bourgeoisie, as well as by parts of the state apparatus itself, for example, from within the bureaucracy. Thus the 1950s signalled a change in the power structure of classes.

New alliances emerged among classes. What I wish to emphasize here, and a factor that is generally ignored by economists, is the synchronization of bureaucratic and industrial interests. Initially it was policy logic that promoted ISI logic and the resultant development. The state chose the policy and proceeded to implement it, irrespective of the consequences. The consequences were considered the best possible under the circumstances. How the policy process was manipulated by its implementors (the bureaucrats) is also important, because while a number of policies sound innocent on paper, their outcomes indicate a collaborative relationship between the industrialists and bureaucrats. For instance, the state claimed to be promoting

all sections of the industrial class, including small scale industries (SSI); in actuality, small businesses were fighting for a voice, while the government ignored them and courted big business. This outcome was obviously the consequence of Pakistan's choice of industrial strategy, i.e., import substitution industrialization.

The result of ISI policies in Pakistan as elsewhere in the world was the development of consumer-based industries and the emergence of large- and medium-scale industries, indicating a collaborative relationship between industrialists and the state. To further its goal of industrialization, the state not only created the industrial class, consisting of big industrialists, but also ensured it the conditions of production. The state involved itself in the most direct manner by not only spelling out policy and setting up the machinery to carry out policy, but also by setting up infrastructure and an elaborate institutional framework to complete the process.

The state and state apparatus displayed different degrees of control in the context of politics and policy. The combination of the two variables, politics and policy, created the complex situation which led to the emergence of a military-bureaucratic oligarchy, and limited the benefits of the development process to a select few.

## CHAPTER V

## PAKISTAN'S INDUSTRIAL POLICY STRATEGY (1947-1959)

Pakistan's Import Substitution Industrialization (ISI) policy was based on economic models produced in the 1940s and 1950s, and the program's appeal lay in the nationalistic tone it adopted. It advocated increasing the wealth of the country as a whole rather than individual welfare. The growth-oriented strategy's success would lie in increasing total output, it was not concerned with distribution. Economic growth and efficiency in terms of costs and prices were considered the effective means of measuring success. This was criticized for ignoring how spread out the returns are in terms of better living standards of the population, as well as real economic independence.

These explanations and critiques constitute the two major approaches for analyzing ISI in Pakistan. It must be clarified that the two paradigmatic approaches consider "failure" of the ISI strategy in totally dissimilar terms so that we may not be able to compare the two as their criteria and variables are entirely different. For the first, looking at conflict and cooperation between class and state based on the convergence and divergence of their interests is important. For the second, the interaction between various economic policies and incentives in an apolitical setting is important. One approach operates on the basis of markets without politics while the other operates on the assumption of politics almost without economics. We

will borrow from the first in order to reinforce the arguments of the second.

#### ISI: Theoretical Rationale, Justification, and Prerequisites

In his book Economic Policy and Industrial Growth in Pakistan (1969) Stephen Lewis Jr. develops a model of ISI based on four simplified phases that constitute the full cycle of ISI.

The first phase has unrestricted trade, meaning that imports are free of (i) duties and (ii) license controls; furthermore, imports and exports are based on equal exchange rates, meaning that the official exchange rate is the same as the foreign price of the imported goods, i.e., there is neither protection of local industry nor a subsidy in the availability of cheaper foreign exchange.

During the second phase tariffs are imposed on imports so that their domestic price rises, resulting in reduced imports. Domestic production will therefore increase and "import substitution" will take place.

Additionally if imports are further reduced with the imposition of a quota in conjunction with tariffs, the total domestic supply will rise more with a further rise in domestic price. At this point the government intervenes ostensibly to protect the consumer from price hikes which are kept in check through exchange rate manipulations. This official rate of exchange reflected an overvalued rupee, which protected domestic producers from foreign competition.

The second phase continues with growth at high cost. Quota and tariff restrictions make the growth of domestic industry profitable

and therefore possible for the private sector to undertake. In general it was assumed that supply of domestic goods would increase and cover 90 percent or more of domestic needs. However, the question, at what price are domestic goods being produced, becomes important. Domestic industry produces goods at a much higher price if compared to the international market. Thus the growth and output of locally produced goods are taking place at a high cost to the state which provides protection. ISI would be considered successful if domestic prices and domestic costs fall and the exchange rate between the domestic price and foreign price falls below the official exchange rate adjusted for the tariff.

In phase III, the cost of domestically produced goods is lowered by the industry itself through efficient production so that tariffs are no longer required to protect it from outside competition. When the cost of domestic production becomes equivalent to that of buying the same goods from foreign sources, ISI is assumed to have become successful.

ISI enters its fourth phase when fully competitive domestic production begins. This phase is the most difficult to achieve and measure. During this phase the local producers cannot only fulfill the demand at home without the protection of quotas, tariffs, and overvalued exchange rates, they also begin to compete in the international market. The exports of the country reflect that its industry has a comparative advantage, at which point the country enters a different strategy for industrialization, namely, export oriented industrialization (EOI).

Import substitution is important in moving from phase I to phase II while export expansion is important in moving from phase III to phase IV (Lewis 1969, 23-30).

Assumptions of ISI: The Lewis model of successful import substitution would have been more factual if it had not ignored price fluctuations, or assumed supply and demand to be inelastic. It also failed to distinguish between industries by major use of product.

Generally speaking, industries are divided into three categories-- industries producing goods primarily for consumption, intermediate demand, and capital goods, such as the production of machinery. These categories are not insular in that many industries produce goods that can be used in all three categories. However, the distinction between the categories gives us tools to measure and evaluate the priorities of a country's industrialization program.

John Power first applied the use of these three categories to the case of Pakistan in his 1963 article, "Industrialization in Pakistan: A case of frustrated take-off?" (Pakistan Development Review, Summer 1963). He argued that a country beginning with an unfavorable balance of payments situation and an insignificant manufacturing base, will try to restrict the import of consumer goods for two reasons. First, due to scarce foreign exchange, the essential needs of established or potential industries are given priority. Second, the belief that the absence of consumer goods would force people to save as their consumption would be limited. However, this policy resulted in the development of consumer industries because investors imported

subsidized capital goods to set up consumer-based industries and began production in a totally protected environment (due to restrictions on the import of consumer goods). Thus industries were established which relied heavily on imported supplies; there was little incentive to develop local capital goods and intermediate goods industries to serve them because these were available at a lower cost (due to overvalued exchange rates) as compared to their domestically produced counterparts. Such an outcome could have been prevented if the state had specified the type of industries that could be set up and provided dis-incentives for non-essential consumer-based industries.

Additionally, the prerequisite of an overvalued currency for this policy discouraged the export of newly manufactured consumer goods. Similarly, government policies promoted savings rather than earning foreign exchange through investment in industry. As a result, after the process had continued for some time, Pakistan developed industries which were heavily dependent on imported sources of supply, with no new means of earning foreign exchange. Clearly the state was subsidizing and protecting a particular group of entrepreneurs at a heavy price to itself. The argument that Pakistan had worked itself into such a situation by the early 1960s is made by Power, Khan and others.

According to Lewis (1969, 39) the reason for separating products into consumption, intermediate and investment/capital goods was two-fold. First, the idea that reduction or nonavailability of consumer goods would promote savings. Second, that lower tariffs and

restrictions on capital goods would encourage the development of domestic industries.

The industries that were established had their backward linkages based on foreign sources of supply, i.e., the machinery for setting up these industries, and sometimes their raw materials. The owners of these industries were interested in maintaining their cheap (because of currency overvaluation) sources of foreign supply. They actively opposed giving equal protection to domestic intermediate goods producers, since such protection would cut into the profits of the consumer goods producers (Lewis 1969, 39). How was this situation possible? Different classes manipulated the instruments of state policy which were controlled by different agencies within the state bureaucracy.

One of the noticeable aspects of the explanation and justification given for ISI is its omission of an active human agency involved and affected by the industrialization process. People do not have roles in the whole model. While the explanation is brilliant, it adroitly excludes the way in which policy is manipulated and the methods by which various groups take advantage of loopholes.

#### Instruments of Economic Policy

How was it that the bureaucracy was able to control the process of industrialization? Furthermore, how was the bureaucracy manipulated into following policies that were at times detrimental to state interests? While overall economic policy was enunciated by the Planning Commission and yearly evaluations were carried out by the

National Economic Council (NEC), it was the various branches of the bureaucracy especially the ministry of finance which controlled the nitty gritty aspects of implementation. The Pakistani government used four basic instruments to affect the type and rate of industrialization. These included the tax system which was controlled by the Income Tax Department; the system of controls, e.g., import/export licensing and controls over investments and prices; economic planning, which was carried out by the Planning Commission; and foreign economic assistance (Lewis, 1970, 20-37).

#### The Tax System

Pakistan inherited a relatively complex taxation system from British India. Taxes are of two kinds: direct and indirect. The first type are levied by the Income Tax Department on incomes and profits, a substantial amount of which come from manufacturers. Indirect taxes are imposed by the Central Board of Revenue (CBR) upon imports, exports, and domestic production of certain manufactures and agricultural products. Both the Income Tax Department and the CBR fall within the Ministry of Finance, a rival of the Planning Commission.

The Pakistani government imposed uneven taxes even within the industrial sector, ostensibly to promote particular industries and develop neglected regions, but in reality profiting particular people. Pakistan's tax laws gave corporations the largest variety of exemptions, exclusions and special provisions. All of these were aimed at the promotion of industrial growth. Some of these were specific, such as tax holidays for certain types of businesses if they were established

in particular geographic regions, exemptions on reinvested incomes, rebates on incomes attributable to export earnings, etc. The system of tax exemptions (tax holidays) created an atmosphere that promoted certain types of industry and not others and profited entrepreneurs who invested in particular kinds of businesses.

Indirect taxes have largely been levied on imports in the form of customs duties, which were traditionally imposed on imports as well as exports. These were determined by the Central Board of Revenue (CBR) within the Ministry of Finance. There are two types of import duties: (a) protective duties determined by the Tariff Commission, and (b) revenue duties imposed on everything as a matter of course. These provide the bulk of money to the state. The taxes imposed on raw materials were to discourage their export. For example, during the mid-1950s the government imposed an export tax on raw cotton and jute to make it available to local manufacturers. This tax made these commodities uncompetitive on the world market so that producers were forced to sell at the home markets.

The duty structure was established to encourage the import of capital goods, hence the logic of low duties on capital goods, while higher duties were imposed on imported raw materials, and the highest duties on imported consumer goods, with a differentiation between consumer goods that were considered luxuries and essentials.

#### Imports Licensing and Export Controls

The system of imports controls, introduced in 1952, began functioning in 1953 and remained in force for almost two decades. The government granted nontransferable licenses which could only be

used for specific commodities. Generally, this category is studied under import licensing and it is assumed that it is the only form of restriction that the government applied. These were also regulated by foreign exchange rules.

There were three sets of foreign exchange rules in Pakistan through which imports were restricted. Government imports (accounting for 30 percent of all imports) were subject to one system of controls as opposed to those for private capital goods imports for the direct use of investors (an average of 20 percent of total imports) which were controlled through investment sanction procedures. The third set of restrictions was on private consumer goods, raw materials for industry, spare parts for industries, and commercially imported capital goods which were legally resalable (all of which roughly amounted to 50 percent of total imports) and were regulated by import licensing procedures.

With regard to exports, the Export Bonus Voucher Scheme was introduced in 1959 to subsidize exports and allow imports that would promote business while keeping the structure of import controls along with maintaining the official exchange rate. Under this scheme, an exporter received, in addition to the amount of rupees converted at the official exchange rate, bonus vouchers equivalent to some percentage of his exports (the percentage varied from time to time and from commodity to commodity). This bonus voucher was transferable and was meant to be used for importing anything from a list of items that were allowed to be imported (this list also changed from time to time, depending on what was considered appropriate or essential).

AS the government allowed a limited amount of imports to prevent vast quantities of foreign exchange going abroad, these vouchers were in great demand. Their owners sold them at a premium and the vouchers at one point fetched up to 150 percent of their face value (Nonan 1988, 38; Bhatia 1979, 111). For example, if an exporter sold goods worth \$100, he received from the government the total amount in rupees plus the bonus rate on that particular item. Additionally he received the vouchers allowing him to import goods worth say Rs.100, which he would sell at the open market for twice the amount, so that he would receive an extra amount of Rs.100 in addition to the amount of rupees he received from the government at the official exchange rate for his exports. This scheme proved very encouraging to exporters as there were profits to be made. It also served as an indirect license on imports as importers would import goods that would promote their business resulting in the efficient use of foreign exchange, promotion of exports and limiting imports. The market would determine investments in the right direction. This system was praised by international donors and planners as it corrected the tilt of economic policies toward the industrial sector and no longer allowed discrimination against the agricultural sector.

Other than import and export licensing, there were direct controls on capital investment, on credit institutions, on prices, on profit margins, on the amount of yarn that could be turned into cloth and on the quantity of certain goods that could be exported, etc. (Lewis 1970, chapter 2).

### Economic Planning

According to Waterston (1963) (as discussed in the previous chapter) full-scale planning did not come into being until 1953, with the establishment of the Planning Board, later renamed the Planning Commission. Policy had been based on plans that were formulated in pre-partition India and on ad hoc decisions by planners and bureaucrats. The Planning Board drafted a First Five Year Plan (1955-60) though it was not approved until the spring of 1956. The Planning Board/Commission became important after 1956. There were tensions between the Planning Commission, which was concerned with the public sector investment program and with economic policies that affected the private sector, and the majority of the government bureaucracy which favored (and had imposed) detailed direct controls on all parts of the private sector. The Board drafted a general economic policy as opposed to a more specific public sector investment allocation policy which came under the powerful Ministry of Finance (Lewis 1969, 11). The two institutions were extremely scornful of each other over the central issue of economic planning. The Board rejected direct controls and advocated reliance on indirect controls as the technique for government influence on private decision makers. This stance was clearly influenced by sources of foreign assistance which had a direct and deep influence on the Board. In particular the Harvard Advisory Group (HAG) and US-AID played an important role in training the economists of the Planning Board/Commission and guiding them in their dealings with the World Bank (Rosen 1985, 171). In fact Pakistan's First Five

Year Plan was practically written by HAG economists (Rosen 1985, 153; Waterston 1963, 98). We will return to this theme in the political economy section.

#### Role of Foreign Assistance

The planning process gained importance with the need to make a clear and convincing case to institutions like the World Bank and other donor countries. Foreign assistance was used in Pakistan's economy in two ways. First, the state absorbed it in public sector projects which originated from the bureaucracy but with the approval of the Planning Commission. Second, commodity aid which included food and non-food assistance was delivered to the private sector, though in the case of the PL480 Program, the inflows were largely absorbed by public sector projects. The Planning Commission used commodity aid to persuade the bureaucracy to relax the detailed import controls, and liberalize food grain prices. It was an attempt to decontrol the administrative structure to absorb the real increase in resources, particularly imports that were made available through foreign economic assistance. However, in political terms this was possible only under guarantee of uninterrupted foreign aid. Thus foreign donors had considerable influence upon policy and they could pressure/persuade the Planning Board to implement policies that they considered appropriate. If the policies were contrary to their recommendations or approval, they had the option of decreasing or halting aid inflows. Foreign credit sources also constitute the non-policy instruments of industrialization.

## Pakistan's Experience with ISI

### The Economists' Account

Pakistan's heavy reliance on ISI is predominantly seen as an economically expedient policy measure. Initially, Pakistan emulated the British model of industrial development by encouraging domestic consumer goods industries so the country would avoid importing manufactured goods at high prices, which would result in balance of payments problems. The difference between the price of raw materials and the price of finished goods with value added was so high that it was considered economically expedient to produce at home. ISI had encouraging results in Pakistan in the 1950s.

Economic Policy Measures: At the time of Partition (1947), Pakistan hardly had any industrial capacity. This fact has been extensively recorded; however, for the sake of acquiring a clearer perspective for the present study a brief history is presented. Pakistan was predominantly an agricultural country, producing the largest quantity of the world's jute and a substantial amount of raw cotton. However, there was not a single jute mill in East Pakistan and only a handful of small textile mills in West Pakistan. These mills were operated by Hindus, whose exodus, combined with the chaos of partition left these mills largely inoperable. While some small scale industry existed,<sup>1</sup> no records of the small scale industries exist

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<sup>1</sup>SSI was largely active in textile manufacture and processing, in the production of bidis (local cigarettes), grain milling, rice husking, jute baling, and some manufacture of simple agricultural tools (Lewis 1969, 41).

and it has been a matter of pure speculation (Lewis 1969, 41; Lewis 1970, 2). Directly after coming into existence, the Pakistani government concentrated on its large scale industrialization projects. It is asserted that small scale industry actually declined as a result of government incentives to large scale manufacturing (Lewis 1969, 41). However, we will discuss this theme later as part of the intervention from large industrialists who in conjunction with the bureaucracy tilted policies in their own favor.

During its initial years, Pakistan exported almost all its raw material to India and imported Indian manufactures, most of which were made from the exported raw material. This made trade between the two countries crucial to their economies. India's industries needed the raw material grown in Pakistan, while Pakistan needed the finished products manufactured in India. One would assume that a cooperative relationship would have resulted but that was not the case, largely due to strained political relations.

Initially, the two countries worked under a Customs Union which was to maintain the system that had been operating when the country was one under the British. Due to the scanty records of the partition period, there are no reliable data that clearly indicate the level of trade between India and Pakistan. However, what is regarded as the most authoritative study ("Partition, Integration, Economic Growth and Inter-regional Trade," by M. Akhlaqur Rehman, Karachi, 1963), asserts that over half of West Pakistan's and over 80 percent of East Pakistan's foreign trade in 1948/49 was with India. By 1953 the share for all of Pakistan had fallen to 3 percent. This shows that the

separation from traditional markets for both countries was rapid. About one third of Pakistan's imports in 1949 came from India of which over 60 percent were manufactures. Similarly, in 1949 exports to India constituted over 40 percent of Pakistan's total exports of which raw jute and cotton accounted for about 65 percent of exports. Furthermore, it is asserted that these figures might underestimate the importance of trade between the two countries before partition as considerable disruption of trade flows had occurred between India and Pakistan by 1949 (Lewis 1969, 50-51).

The enormous decline in trade by 1953 occurred firstly because the British government devalued the pound sterling in September 1949, followed by a devaluation of the Indian rupee. Pakistan was expected to follow, but the cabinet of Liaqat Ali Khan decided against devaluation. The result was that the Pakistani rupee was overvalued as against the pound sterling and the Indian rupee, providing Pakistan favorable terms of trade vis-à-vis the two countries with whom Pakistan conducted the bulk of its trade relations. Pakistan would pay less to acquire the same commodities while in exchange (for the same amount of trade) it would receive a larger amount of Indian and British currency.

This situation was unacceptable to India which felt that Pakistan was gaining unreasonably, and after exerting political pressure on Pakistan to devalue its rupee, it cut off trade with Pakistan. India refused to buy Pakistani raw jute and cotton, as a result of which both Pakistani producers and Indian manufacturers suffered. Producers could not instantly find markets abroad while the Indian manufacturers

were threatened with closure of their factories due to lack of raw materials. Trade between the two came to a virtual standstill after this incident and did not acquire the same proportions even after a Pakistani devaluation to par value with the Indian rupee in 1955.

The outbreak of the Korean War in 1950 proved fortunate for Pakistan as suddenly cotton prices increased on the world market. As a result Pakistan was able to sell its cotton for a high premium and with an overvalued rupee earn enormous foreign exchange. Pakistani policy makers probably congratulated themselves for their foresight whereas it was unforeseen good fortune which brought about the happy set of circumstances. The Korean War boom in cotton prices stabilized Pakistan's economy and the country did not collapse as India expected when it stopped trade with Pakistan. Pakistani importers were allowed (as noted earlier) to import without restrictions. At this point the government should have stipulated a list of priorities for imports, but it failed to do so. Importers bought consumer items and squandered the foreign exchange.

By the time the government realized what had happened, it was too late. However, some industry had been set up and the government, in order to accelerate the process of industrialization, set up PICIC under Ghulam Farooq. This organization was given the task of establishing industries and when they became viable and profitable, they were sold to the private sector. Thus private investors circumvented extensive bureaucratic bottlenecks and avoided having to speculate the comparative advantage of setting up industry in different

regions. Through this system the government tried to indirectly induce the private sector to invest in industry.

Import substitution as we have seen from the model already discussed, involves development of large-scale manufacturing capabilities. As there was a basic assumption in favor of private enterprise at the beginning, this sector was encouraged to invest. However, in accordance with ISI requirements only large-scale investments were encouraged. As these could only be made by owners of large capital, the whole process of industrialization benefitted a small group of industrialists. Large-scale manufacturing which also tends to be capital intensive, does not create many job opportunities since it is not labor intensive.

In the initial years industrialization grew at a tremendous rate. This was partly due to the fact that there was very little to begin with, and second, with the encouragement of large-scale manufacturing and positive incentives to industrialists in terms of unrestricted imports and provision of protected markets, there was fervent investment activity. During this time agriculture suffered as there continued to be restriction on the movement of grain (by legislation enacted by the British in the World War II years). While several reasons can be cited for this state of affairs, the primary ones consisted of the system of land tenure and land ownership. There were large landowners in the country who successfully blocked legislation for land reform. In fact their role in the national parliament was restricted to safeguarding their own interests. Since the ceiling on ownership allowed a substantial amount of land per owner, there

was no incentive to apply modern techniques for intensive farming. Landowners lacked both interest and know-how for increasing their yields. What mattered was authority and power, and these remained unchallenged so long as land reforms were not instituted.

Additionally the availability of relatively inexpensive grain under the PL480 program made the government complacent about the agricultural sector. The availability of food aid from the United States eased Pakistan's predicament when a serious famine threatened West Pakistan due to the absence of the Monsoon rains in 1952 while there were floods in East Pakistan. The ensuing years encouraged an attitude of dependence as Pakistan continued to be provided cheap grain under the PL480 program. Pakistan started working in close partnership with the United States in other areas as well.

The inclusion of Pakistan in the PL480 program was part of the United States' containment policy aimed at fighting communism (Jalal 1991, 240). The 1950s were the heyday of anti-communist hysteria and McCarthyism in the United States. Communism held tremendous appeal to many developing countries of the time as the Russian model promised fast industrialization and economic development. The United States did not want any economically poor country to come under communist influence, and thus instituted programs designed to alleviate poverty through aid. Equally important was the fact that Pakistan constituted an important geographic link in the chain of encirclement of the Soviet Union and communist China. Thus when Pakistan accepted membership in the South East Asia Treaty Organization (SEATO) and Central Treaty Organization (CENTO), Pakistan became firmly embedded in the U.S.

policy of containment. It began to receive military aid to bolster its army, ostensibly to fight the USSR and China as part of the U.S. mission to "contain" communism. However, that was not the purpose for which Pakistan wanted to keep its army war ready. Its immediate concern was keeping India at arm's length. While this difference in perception created misunderstanding between the two, and disappointed Pakistanis regarding U.S. commitments, the inflow of aid helped Pakistan's industrialization project indirectly by releasing scarce capital owned by the state for investment in infrastructure. The industrial sector grew at the expense of the agricultural sector, while the subsidization of the latter by the U.S. PL480 program worsened the situation, as there was little impetus for the government to revive a stagnant agriculture. Simultaneously, the prices of agricultural raw material were kept artificially low for industrialists. Although the small farmers suffered due to this policy, it took almost a decade to correct the situation through another policy tool that provided incentives to exporters. We have discussed the Bonus Voucher Scheme earlier in the chapter to highlight the effect of state policies aimed at encouraging exports to achieve a favorable balance of payments situation. Thus we find that during the first decade of Pakistan's development, import of manufactured goods fell as a percentage of the GNP, but the import of agricultural commodities rose, largely due to the U.S. PL480 program.

#### Failure of ISI: Economists' Explanation

Some of the critics of ISI policies in Pakistan maintain that ISI was not successful. Protective tariffs and exchange rates, special

preferences for firms importing capital goods for industries (Imports Licensing Act), easy loans by the government for favored industries, and construction of infrastructure especially designed to help industries had mixed results. According to most economists, these manipulations of the market led to price distortions and contorted economic growth accompanied by maldistribution of income. Critics feel that the promotion of ISI policies was indiscriminate, i.e., the government did not promote industries that would have provided it with comparative advantage. According to Bhatia (1979, 111) the inefficient use of resources was considerable in the context of different industries. The differences in the rates of protection denoted that:

1. Consumer goods were much more heavily protected than intermediate or capital goods.
  - i. Within the consumer goods industry, textiles were the most extensively protected group of industries.
  - ii. Non-essentials, such as beverages and cigarettes were substantially more protected than essential industries, such as grain and rice milling, salt and tea.
2. The capital or investment goods producing industries were the least protected group. These included industries producing machinery, such as electrical and non-essential goods, certain types of transport equipment, and chemical fertilizers.

Many economists assert that this phenomenon was the result of misdirected government policies. They argue that government policies were indiscriminate in such areas as overvalued exchange rates, which only promoted inefficient industries, uncompetitive at world market prices. Thus, by implication, almost all industries were protected, although the degree of protection varied from industry to industry.

Economists also criticize the ISI strategy's choice of techniques. An overvalued rupee exchange rate led to capital intensive and labor saving techniques even in consumer and intermediate goods industries and thus potentially destroyed employment opportunities. This happened in many African countries in the 1960s as well, e.g., Ghana.

ISI led to inefficient production in terms of prices as well as quality and led to concentration of industrial power and assets within groups and regions. Economists and development planners blame these predicaments upon the wrong choices of techniques in implementing policies, totally ignoring the role of class and institutional interests.

ISI failed to create employment opportunities. Tariff protection, tax holidays and the import licensing act led to capital intensive industrialization rather than labor intensive industrialization. The wages of labor were low. An unequal distribution of income and a fiscal system that did not even attempt to correct the maldistribution was exacerbated. The emphasis was on economic growth by capital in a capital poor state.

Regional inequalities were explained in terms of the preference of firms to settle close to suppliers, infrastructure facilities, and skilled labor supplies. Was it so or did a particular class segment induce the state to focus on developing particular areas for its own gains? To answer this, we need to look at the alternative explanation presented by the political economy approach.

### Political Economy Explanations

Political Economy supporters assert that the existing class structure was largely responsible for creating a domestic market that could cater to the bourgeoisie. As a result industry focused on production of luxuries and consumer durables, and was concentrated in existing urban centers where the industrialists had settled. This led to unequal distribution of resources and wealth in the country.

At the end of the 1950s Pakistan was in the same dependency position that it had attempted to escape more than a decade before. ISI could have been effective provided it was working under perfect conditions. However, class interests interacted with policy formulation and implementation, making the expected outcomes impossible to achieve.

Industrial policy and the fast pace of industrialization came about as a result of conscious government decisions. The subsequent industrial development was the result of a combination of state initiatives and manipulations by industrialists. There were a number of policy and non-policy decisions that affected the process as well. This process was rendered even more complex as the industrialists did not intervene in the policy process in their own favor as a class, for what was of interest to one class faction was not necessarily perceived that way by another faction of industrialists. Here, I also want to point out that a simple division of industrialists into small-scale and large-scale is insufficient. Industrialist class factions were formed also according to what they manufactured, e.g., the

manufacturers of textiles formed the All Pakistan Textile Mill-Owners Association (APTMA). Or for example an industrial class faction consisting of the producers of intermediate goods had different interests with regard to import policy vis-à-vis the producers of consumer goods. Similarly, the industrialists were also divided along ethnic lines so that there was tension between the East Pakistani (mostly Bengalis) and the West Pakistani industrialists. Among the latter there existed competition between the Mohajirs (groups who had migrated from India) and the Punjabis. Thus to treat the industrial class as a uniform class is to overlook the differences that came in the way of cohesive class action. Due to these differences there was barely any action from the industrial class as a cohesive class. Hence the representative organizations of the industrialists such as the Chambers of Commerce and Industry were not relied upon heavily for safeguarding or fighting for the interests of the industrialists. The big industrialists had direct links with the government through the bureaucracy and did not trust umbrella organizations to represent them. Even the industrialists who relied upon these organizations lacked faith in them. Largely such organizations were torn by the ethnic and communal strife that existed among various communities vying for scarce economic resources under state control.

The basic intent of this rather long warning and explanation is to emphasize that while industry progressed at a fast pace, not all industrialists gained proportionately. Second, and more importantly, the emergence of the industrial class was a state-sponsored phenomenon. However, this phenomenon was also aided by external factors. For

example, the Korean War boom led to the policy of unrestricted imports. This led to the creation of a group who accumulated substantial wealth by importing luxury consumer goods and selling them at great profits. While these people earned wealth, the state lost precious foreign exchange without procuring intermediate or capital goods. Similarly, the anti-communist hysteria in the United States compelled it to aggressively seek allies in third world countries by promoting elites. While the industrial class did not initially have direct links to the metropolitan bourgeoisie, such connections were developed as a result of the latter's need for markets in third world countries.

#### Conclusion

ISI is generally seen as an economically expedient policy measure. It can also be viewed, however, as pressure generated by a burgeoning industrial class upon the state for protection of its investments, in return for fulfilling the state's need to industrialize. Thus policies tilted heavily in favor of a certain class of industrialists. This class was comprised of merchant capital that had transformed itself into industrial capital by forming an alliance with the government. The state tacitly promised protection. This class obtained the cooperation of the state to block the emergence of a different section of industrial elite. With the help of international financial agencies the state was encouraged to promote capital intensive large- and medium-scale industries (LMSI), and provide loans specifically for such industrialization. The industrial class, specifically the owners of large- and medium-scale industry, was not

powerful enough to maneuver policy completely in its own favor without the support of the international funding agencies. Thus the cooperation of the state was not so much the outcome of the pressures exerted by an aggressive and dominant industrial class as it was a consequence of the relative weakness of the subordinate classes. The vacuum thus created was filled completely by the dominant classes and metropolitan capital.

Additionally, the big industrialists received support from the bureaucracy so that they were able to channel, manage, and at times manipulate the process of industrialization in a certain direction. Therefore, it is not just the pursuit of a growth-oriented strategy, but how the process was manipulated that is important. For instance, the Establishment Division of the Civil Secretariat has often been used by big industrialists through their contacts to attain large loans, contracts, and licenses. Similarly, these contacts helped expedite the process of procuring large amounts of loan capital without collateral sanctioned for industries that were made to sound "large scale" on paper, but in reality turned out to be bankrupt enterprises that were only used for the purpose of attaining loans in local and foreign currencies.

In the presence of a well-entrenched landed class, why did the Pakistani government formulate policies that favored a weak and ill-formed entrepreneurial class? Equating industrialization with economic development, the state created a new class that was strong. This also has as much to do with the bureaucracy which cooperated with the state

in the creation and protection of this class, as with the antipathy and ambivalence of the bureaucracy toward the landed class (discussed in Chapter IV). Therefore, the Pakistani government and state strengthened the entrepreneurial class when it formulated the Imports Licensing Act, which restricted raw material and consumer goods imports, and the Export Bonus Scheme, which provided huge profits to exporters, while the creation of PIDC helped the big industrialists by providing them industries that had already begun to accumulate profits.

We must keep in mind that policy decisions directed at strengthening the industrial class do not imply a subordinate position for the state. The state exercised relative autonomy when it formulated and implemented the aforementioned policies, for it was simultaneously maintaining balance among the interests of the agricultural elite, by blocking land reforms, and by avoiding to introduce any policy of substance with a positive impact on the larger rural population.

To conclude, government pronouncements regarding industrial policy were couched in the logic of complicated economic models of ISI which were supposedly neutral. However, they served to justify and perpetuate conditions of production favoring particular industrial class segments who had formed close ties with the state apparatus. The promotion of this class faction resulted in capital intensive industrialization, characterized by uneven economic development within the regions of Pakistan. That these policies were disastrous for both class and state in the long run will be demonstrated in the next chapter.

## CHAPTER VI

THE AYUB REGIME: INDUSTRIAL GROWTH OR INDUSTRIAL FALLOUT?  
PHASE II OF ISI (1959-1969)

An industrial policy not only owes its shape and content to the nature of the state, it also provides an understanding of the state. In this symbiotic relationship, the nature of the state itself can be viewed from the kinds of policies a state follows because they reflect its relationship with the national bourgeoisie, international finance institutions, and other states. Three basic questions raise the issues in this thesis:

1. What was Ayub Khan's industrial policy?
2. How did that policy strengthen the existing elite?
3. Was the state dependent upon classes?

Dividing this discussion into four main parts, the emphasis will be on: the industrialization strategy of the Ayub regime with a focus on domestic economic policies and industrial development; examining the impact of the World Bank and the United States government upon policy-making and implementation in Pakistan; the correlation between industrial development and agricultural development; and the links between industrial strategy and Pakistan's break-up.

The industrialization strategy followed by the Ayub regime was disastrous in the long run. This strategy with its undue emphasis on growth, exacerbated the separation of East Pakistan and created enormous disparities within the regions constituting West Pakistan.

The state was preoccupied with massive and quick industrialization as that was considered the chief means of modernization.

Domestic Economic Policies, 1959-1969 (ISI's Second Phase)

This phase was marked by the introduction of an attempt to diversify into an export-oriented industrialization (EOI) strategy. This change was brought about not only by willful policy logic; equally important were the political implications of class resistance and large doses of foreign aid from the U.S. and World Bank. Briefly, the state attempted to enforce a different strategy for industrialization under pressure from donor countries, but it was unsuccessful as the indigenous industrial class was reluctant to diversify, while the international donors more or less abandoned the country after the Indo-Pak war of 1965. The following years were spent in military build-up, and unsuccessfully quelling the secessionist movement in Bangladesh, formerly East Pakistan.

The 1950s saw substantial rapid industrialization in Pakistan. However, toward the end of the 1950s there was a fairly widespread realization that industrialization was uneven in the country. It was concentrated in particular regions at the expense of other parts. To correct the situation, the regime made industry a provincial rather than central government responsibility. Although this was considered by economists to be one of the most important decisions of the regime, government practice demonstrates that the decision did not alter power relations between the central and provincial governments or between the state and the industrial class. This decision shielded the central

government without compromising its power. Provincial ministries of industries were ineffective since real power continued to be centered in the federal government which controlled taxation, imports, and foreign exchange.

After the imposition of Martial Law in the country in 1958, the Ayub government announced three important measures as part of its effort to correct the situation. These were:

1. Emphasis on the development of industries based upon or connected with agriculture and raw materials available in the country;
2. Developing medium, small and cottage industries as a means of mobilizing capital and increasing employment opportunities;
3. Establishing large-scale and heavy industries considered essential for the speedy achievement of a strong and balanced economy provided they were within the available resources (Government of Pakistan 1969, 77).

In large part there was nothing especially innovative about this "new" government emphasis. The First Industrial Policy Statement (1948) had also prescribed a similar focus. What was new was the shift to export promotion. The aim behind establishing domestic industries was to save as well as earn foreign exchange. Economic experts felt that the first phase of import substitution had run its course, and Pakistan was now ready to enter the next phase, i.e., export orientation. The government continued to support the industrial class and encouraged it to invest in industry by providing it various incentives besides making public statements that courted the private sector.

The government offered tariff protection, tax holidays and undertook industrial research to promote a specific kind of industrialization. Through its policies of tariff protection and tax holidays it attempted to guide industrial development into the less-developed areas. Simultaneously, it created various institutions like the PIDC (mentioned in the previous chapter) to initiate projects in areas where the private sector did not want to venture because of the large amount of capital and risk involved.

Aside from these measures the government offered to make direct foreign exchange available to industrialists. It also offered export credit guarantees, tariff protection, infrastructure aids, such as training facilities, water and power development, and aid in land acquisition (Kochanek 1983, 76). Such policies depict the importance that the state awarded its industrialization project.

The average growth rate of large-scale industry during 1955-1960 was 15 percent per annum. During the second plan period (1960-65), the contribution of the manufacturing sector to the GNP was 11.5 percent as against 9 percent in 1957-58. By 1967-68, the contribution of the manufacturing sector was estimated at 12 percent (Government of Pakistan, Economy of Pakistan 1969, 87-88). These growth statistics indicate that while industry grew as a whole, it was really large- and medium-scale manufacturing that grew. Although there are no reliable records of the growth of small scale industry, one can easily

assume that its growth rate was small in comparison.<sup>1</sup> Due to its size the government did not provide it sufficient importance and incentives. It was only after 1970, in the aftermath of mechanization of agriculture and some other policy measures (discussed later) that SSI growth began to accelerate.

The Ayub regime emphasized industries using domestic raw material and agricultural products such as cotton textiles and woollen mills, sugar mills, and tobacco industries. It also attempted to develop East Pakistan industrially. Thus state-sponsored organizations like the PIDC were bifurcated in two, one for each wing of the country. Similarly, PICIC was required to initiate projects in the eastern wing. Although the government succeeded in creating an industrial class in that region which had vested interests in the Ayub regime's continuation, appeasing it was insufficient to keep the country intact. We will return to this issue in greater detail later.

#### Exports Promotion

The emphasis on exports promotion came in 1959/60 with the formulation and implementation of the Export Bonus Scheme. As mentioned before, the government had allowed the import of intermediate and capital goods to encourage industrialization. Besides building various trade barriers to protect domestic industries, the government

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<sup>1</sup>In the absence of reliable data, according to Hamid (1989, 13) the national accounts set the SSI growth at par with population growth rate. Such an arbitrary method of calculation denotes the lack of importance extended to SSI by the government.

maintained an overvalued domestic currency. This was to the advantage of the importers who paid less for raw materials; conversely, exporters suffered a decrease in the price of commodities they sold. A devaluation of the currency could have corrected these price distortions, but to do so was unacceptable to the industrial class. A rise in their import costs would not only have raised the total cost of their outputs, it would have led to the development of intermediate and capital goods industries inside the country. Relative to world market prices, it would have cost more to buy intermediate and more capital intensive goods manufactured in Pakistan. Consequently, substantial pressure was exerted to prevent devaluation. This made the development of an industrial base made up of intermediate and capital goods producing industries almost impossible. Furthermore, it limited the directions in which Pakistan's industrial development could be guided. The directions that were left open to distorted development. To confront the problem, the government introduced the Export Bonus Scheme under the guidance of the World Bank.

The Export Bonus Scheme was an attempt to provide exporters with an incentive to export more, not by means of devaluation of the currency, but by granting import permits equivalent to 10-40 percent of the value of certain export goods. The net effect of these vouchers was a boost in the income of exporters, leading to a rise in the amount of exports<sup>2</sup> (Bhatia 1979, 111; Noman 1988, 137). Thus, protection

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<sup>2</sup>For more details, see the subsection titled "Imports licensing and export controls," Chapter V.

was maintained for the industrial class. The development of intermediate and capital goods industries continued to be successfully blocked. The formerly frustrated group of exporters was also satisfied. The state and industrial elite were in complete harmony.

#### Five-Year Plans Under Ayub Khan

It is ironic that while the idea of five-year plans came from Communist Russia, Pakistan's First Five-Year Plan was written by American academics from Harvard! The First Five-Year Plan (1955-60) was not implemented until the spring of 1956 due to the unstable political situation and changing government priorities. However, after 1958, when Ayub Khan took over, long-term planning gained importance, and Five-Year Plans reflected more than a government wish-list. The Ayub regime can be divided into two stages, the Second Five-Year Plan period and the Third Five-Year Plan period. Industrial growth continued during both but the pace was different during the two periods.

The Second Plan analyzed the First Plan's failures and resolved to avoid the pitfalls. Pakistan's agriculture suffered enormously during the First Plan because it had to import large quantities of food grain and pay freight charges for the food assistance. Therefore, it was decided that agricultural development would be targeted. The introduction of the export bonus scheme helped the agricultural sector as the terms of trade had been against it until then.

The Second Five-Year Plan (1960-65) tried to remedy stagnant agricultural growth through the Rural Works Program. It aimed to

achieve self-generating growth through market mechanisms. During this plan national income actually increased by 30 percent, whereas the targeted sum was 24 percent. Similarly the agricultural sector grew from an annual rate of 1.3 percent to 3.4 percent per annum, hence a balance emerged between agriculture and industry.

The various policy measures combined with the export bonus scheme improved the balance of payments situation. Export earnings were higher than estimated, import requirements smaller than originally projected. Investment exceeded targets, and the country did not take further recourse to foreign assistance. Thus the Second Five-Year Plan appeared successful in the context of Pakistan's economy.

The Second Plan introduced some important changes in economic policy. Direct controls were lifted and greater reliance was placed on market mechanisms. The outcome of this policy was disastrous in the long run, but in the short run it resulted in high growth rates that enhanced the reputation of the country as an economic success by conventional standards. This reliance was largely the result of the new relationship developed with the World Bank which started playing an active role in the economy.

The Third Plan (1965-1970) was formulated in the light of long-term strategy in the early part of 1965. Consequently, when aid was cut at the beginning of 1966, this Plan had to be changed drastically. The Plan had envisaged an increase in short-term aid, and the termination of aid inflows after two decades (Baqai 1970, 43). Economic planners were perplexed when their projections fell into

disarray and had to be abandoned eventually due to political instability and the shortage of capital. The fate of the Third Plan is an excellent example of the damage dependency imposes on third world countries.

#### International Linkages and Liberalized Industrial Policy

The regime of President Ayub Khan was heavily dependent upon foreign aid. Its performance was considered good because of the large injections of capital provided it by international agencies and institutions. Capital and technical support had been provided on condition that Pakistan implement policies and models supported by these agencies. This resulted in Pakistan's premature EOI attempt. Pakistan provided the experimental grounds for these institutions to prove their hypothesis much as India did for nineteenth century British economists who introduced their theoretical ideas--for example laissez faire in India--before initiating them in Britain.

After 1955-56 when Pakistan joined two U.S.-sponsored defense pacts--South East Asian Treaty Organization (SEATO) and Central Treaty Organization (CENTO)--its international position changed. It became firmly entrenched in the U.S. system of alliances and aid increased. Consequently Pakistan was firmly ensconced in a dependent position. The pace of industrialization continued steadily although the prices of Pakistani cotton and jute could not fetch foreign exchange reminiscent of the Korean War years. The change could be readily discerned after 1959-60 when Pakistan experienced its first military coup. An added emphasis on export orientation became more apparent.

The level of foreign resource inflows increased from 5.4 percent of the GNP in 1959-60 to 8.9 percent in 1964-65. After 1965 (the year of the Indo-Pak war) foreign resource inflows declined to only 3.1 percent of the GNP, reflecting the power of the international financial institutions to "punish" countries if they followed policies disapproved by them. Furthermore when Pakistan and India went to war in 1965, U.S. aid to Pakistan was curtailed.

As much as 50 percent of Pakistan's second Five-Year Plan's (1960-65) share for economic development was financed by foreign aid from the U.S. It totalled US \$2.1 billion, more than double the amount given during the First Five-Year Plan (1955-60) (Rosen 1985, 151). During this period Pakistan introduced changes in industrial policy that led to liberalization of the terms of trade for the private sector and a more market-oriented economy. These policy measures were clearly influenced by the World Bank, International Monetary Fund (IMF), and the Harvard School economists. After receiving heavy inflows of foreign capital, large-scale manufacturing in Pakistan increased at an annual rate of approximately 17 percent during the first half of the 1960s (Noman 1988, 37). The pace diminished after 1965 partly owing to declining aid.

Industrial sector growth was attributed to the liberalization of the economy and removal of excessive bureaucratic controls. In addition, investments controls were relaxed. For example, no official sanction was required for investments in sectors listed in the Industrial Investment Schedule, thus removing some of the complicated

procedures of the 1950s. There was an immediate response from Pakistan's private sector to this liberalization of investment controls. Pakistan's industrial production grew by 72 percent over the period, compared to 55 percent for Asian countries (Noman 1988, 37). The World Bank, closely associated with Pakistan's economy, commented that Pakistan's economic policy had an impact on industrial growth in many different ways and was generally highly favorable to such growth (IBRD: Industrial Development of Pakistan 1966, 4).

Foreign aid during the second phase of Pakistan's industrial development was partially responsible for the creation of conditions that strengthened a select class of industrialists and financiers. Furthermore, this took place with the endorsement of the international structures of domination like the World Bank. Indeed, this class could not have become strong had it not been supported by such organizations. The industrial class and international institutions strengthened one another while the bureaucracy was co-opted, although in a very limited manner, by the removal of excessive bureaucratic controls and the creation of public corporations by the regime. Also, the impact of these institutions on government policy formulation was tremendous, signalled by the introduction of the exports promotion scheme.

#### Agricultural Sector Versus Industrial Sector

The early industrialization was "financed" in the most direct sense by the agricultural sector. (Lewis 1970, 66)

Employment was among the most difficult of problems in Pakistan. Although the green revolution and mechanization of agricultural inputs gave impetus to a stagnant agricultural sector, employment opportunities did not increase in proportion to agricultural growth. The question of labor absorption in a constantly increasing population became the central dilemma. Agricultural reform could not effectively deal with the growing poverty of the masses and income differentials among various classes. The overvalued rupee and restrictions on export of raw materials were major disadvantages to agricultural sector growth. Such impediments were maintained to keep industrial costs low. Stagnation in agricultural sector growth caused unemployment to acquire serious proportions.

Pakistan's emphasis on large- and medium-scale industrialization put a heavy emphasis on capital-intensive techniques. Due to easy capital availability in the form of loans with easy interest rates, subsidies, and lower tariff rates, the market price of capital, according to Guisinger (1978), was between one-fourth and one-third of its shadow price. Similarly, wages were at about 1.8 times their shadow price. Such distortions springing from government policies created conditions that encouraged capital intensive industries due to cheap capital availability in comparison with labor wages. Khan's (1970) estimates place the capital-labor ratio in most industries in Pakistan in the 1960s at the same level as that in Japan and several other developed countries. Therefore, while industrialization increased, it did not produce greater employment opportunities in a labor-rich country.

One of the most important decisions was the abandonment of food rationing systems and restrictions on grain movement. These systems had been enacted during the Second World War by the British in India. The Pakistani government had continued these policies even though their *raison d'etre* no longer existed. This is also seen as a reassertion of the landlords in the political arena, i.e., laws were enacted to safeguard and promote agricultural interests. Aside from land reform, the government implemented other policy measures that helped the agricultural sector. For instance, it established support prices for wheat, introduced a 50 percent subsidy on fertilizer, and made the import of tube well pumps and other farm machinery easier.

The government trumpeted the agricultural sector's weakness and the immediate need to remedy the situation. Only a small section of the rural population, the big landlords, gained from this new government emphasis. A halfhearted attempt at land reform did not lead to a real redistribution of land in the country. The reform left too many loopholes which were exploited to the fullest by the landed elite. For example, not only were land ceilings kept high, but powerful landlords were informed of reforms well in advance, so they could transfer land deeds to the names of close relatives. Moreover, the implementation of these reforms was far from desirable. Only a fraction of the land was redistributed because land ceilings were set at 1,000 acres of unirrigated land and 500 acres of irrigated land. Since the ceiling on ownership was on individuals rather than families, very little redistribution took place. Barely 35 percent of the excess

land declared by landlords was reclaimed by the government. The Revenue Board was responsible for implementation of land reform, the one branch of the bureaucracy in which landed interests had direct representation.

A general impression, constantly reproduced at all levels of official and non-official discourse, is that of absentee landlords who were not interested in increasing agricultural output. A feudal system is blamed for this situation.<sup>3</sup> Although there is truth in this, the issue goes beyond unmotivated landlords. First, this group did not possess enough risk capital to invest in industry. Second, they did not possess the skills and knowledge required for operating a successful industrial enterprise. To set up industry they not only needed large quantities of capital, they also needed licenses, and permits to import machinery, certain kinds of raw materials, and foreign exchange. Different sections of the bureaucracy were empowered to deal with these issues, a procedure that intimidated the landed class. They could not envision themselves asking a bureaucracy they secretly despised for favors in an area unfamiliar to them.

A large part of the reason the landed class had insufficient liquid capital is related to the fact that the prices for agricultural goods were extremely low. Conversely land productivity was not

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<sup>3</sup>My interview during field study in December 1989 with Dr. Mobashir Hassan, former finance minister of Pakistan, confirms this thesis. He asserted that it was largely the lazy landed class, with wasteful lifestyles, that was responsible for the agricultural sector's inability to transform its capital into industrial capital.

comparable to the post-green revolution stage. Therefore, the landed elite were able to lead a life of leisure, but never had excess cash flows.

The prices of agricultural raw material were deliberately kept depressed by the government for the sake of domestic industry. Agricultural raw materials fetched higher prices in the world market when they were exported. However, within Pakistan the government fixed the prices in order to encourage industry to grow with the help of cheap raw materials.

Additionally, aid from the United States came in the form of commodity aid under the PL480 program introduced by the Eisenhower administration. This meant that the Pakistani government had to buy U.S. grain (admittedly at very low prices, which is why it came under the caption of aid). The net effect of the PL480 program on Pakistan's agricultural sector was negative. Landowners had little impetus to increase their output considering the maintenance of low prices and small profit margins.

We may thus conclude that an already stagnant agricultural sector needed a big push from the government in order to flourish; instead the government maintained this sector's status quo. In effect agriculture was discouraged from expanding into other areas as no incentives were provided for diversifying and increasing growth, while prices of locally grown raw material and grain were kept artificially low to permit the industrial sector to maximize its profit margin. Rising discontent and poverty among the masses combined with regional

inequalities between East and West Pakistan eventually resulted in Pakistan's dismemberment.

#### Uneven Industrialization and the Breakup of Pakistan

A large body of literature exists on the subject of Pakistan's breakup. The majority of it concentrates on the differences in culture, language, historical experiences, and sense of Bengali identity. These studies never fail to point out that the two parts were physically separated by over one thousand miles of geography. For purposes of the present study, and at the risk of sounding reductionist, I assert that it is the economic base which constitutes the crux of the issue. The language movement emerged simultaneously with the realization that the two parts were developing very differently and that West Pakistan was siphoning off East Pakistan's share of GNP under the rubric of a 'natural' consequence of an (ill-chosen) economic policy. I also wish to demonstrate that this disparity existed not only because of ill-fated economic policies but because of the interface of class and policy making.

Regional economic disparity surfaced as early as the 1950s and created bitter resentment and opposition in East Pakistan. Why was economic disparity allowed to continue? Mahbub ul Haq, the former Chief Economist of the Planning Commission, accepted that the disparities were the direct result of the policies that followed free market forces left to work uninterruptedly. In part this was a legacy of the British colonial tradition of administering India in a laissez faire manner. They wanted maximum extraction without reinvesting in a welfare sense. Mahbub ul Haq wrote:

It shows that if there are wide economic disparities between two regions, the pull of the free market forces will tend to aggravate them. Economic growth will tend to become concentrated in the relatively richer region, with its better infra-structure, more aggressive entrepreneurs, and known opportunities for investment. Private saving from the poorer region will also go to the richer region in search of profitable opportunities. Foreign investment will tend to flow to the richer region where some dynamism has been built up and returns seem to be safer and larger. Foreign aid and loans will be distributed more in favor of the richer region where those 'sound' projects are located, on the basis of which foreign assistance has been negotiated. The Government becomes an unconscious ally in this process of concentration of economic forces--or 'polarization process' as Myrdal has called it--by creating more infra-structure where bottlenecks are more obvious, by distributing scarce resources like foreign exchange where demand for them is higher, and by concentrating its administrative personnel in the more dynamic region where the problems of control are more keenly felt. It is clear that this is what has happened in the case of East and West Pakistan. This was but a natural sequence of events in the absence of a clearly defined, regional policy. [Emphasis mine] (Mahbub ul Haq, The Strategy of Economic Planning 1963, 113)

Development strategy in Pakistan benefitted West Pakistan at the expense of East Pakistan. Within West Pakistan, because industrial class segments were identifiable with certain areas, industrial concentration, therefore, took place only in certain pockets. In general, West Pakistani policy makers explained that because infra-structure and capital were present in West Pakistan, therefore, development efforts had to be concentrated in that wing. This was a clear case of ruling class interests influencing state policy to its own advantage.

The limited nature of industrialization in the 1950s and 1960s, growing regional inequalities, larger deficits, and debts, all reflect

the pressures generated by class struggle within the country. While the dominant class segments vied with one another for power, there was also tension between the dominant and subordinate classes. The concentration of wealth among the upper classes had taken place along regional lines. Hannah Papanek stated that there were only two East Pakistanis ranked at the bottom of a list citing 29 of Pakistan's largest family-controlled enterprise groups (as quoted in Ahmed 1980, 118).

East Pakistan's exploitation could be viewed at another, more concrete level. The agricultural surplus of East Pakistan was transferred to the industries of West Pakistan because of the presence of industrial processing capabilities in that wing. West Pakistani manufacturers were able to earn a comparatively larger marginal share after conversion of these raw materials. In one sense West Pakistan took over the role that Britain and India's metropolitan areas had played in the past. Thus wealth became concentrated in the hands of a few people in West Pakistan.

Besides the resources of East Pakistan, its foreign exchange earnings and its share of foreign aid were also transferred to West Pakistan (Ahmed 1984, 129). According to Tajuddin Ahmed, East Pakistan was more negatively affected than West Pakistan due to the break in trade relations with India. He argued:

We have to resume trade relations with India . . . We are being forced to import coal from China which costs us Rs.172 per ton. We can import the same coal from India at Rs.53 per ton. We used to produce our own cement in Sylhet but the raw material, limestone, used to come from Assam. That has been suspended since the war. West Pakistan industrialists sell cement to us

at Rs.12 to Rs.16 per bag of cement. Our cement, ex-factory, used to retail at Rs.7 to 8. Indian cement is Rs.8.50 per bag. India was the only buyer of low quality jute. We can't sell that to India . . . Hundreds of thousands of problems have been created in this way . . . Any standard cloth from Japan would cost Rs.2 per yard whereas West Pakistani cloth is sold in the protected market at Rs.6 per yard. (Quoted in Khaled Bin Syed 1980, 69)

Furthermore, the large inflow of foreign aid, which was crucial to Pakistan's fast economic growth rates, was mostly "absorbed" in West Pakistan. For example, from 1961-1969 West Pakistan's total import surplus in commodity trade with East Pakistan and the rest of the world was four times that of East Pakistan (Bose 1983, 1022).

The transfer of resources from agriculture to industry also generated inequality. Since East Pakistan was more agriculture-dependent than West Pakistan, it suffered more. Its resources were transferred to West Pakistan through a triangular trade relationship whereby its trade surplus with foreign countries was absorbed in West Pakistan through exchange and import controls, and through excessively high-priced manufactured West Pakistani goods.

Similarly, East Pakistan was not a high priority area in the 1950s and 1960s from a developmentalist viewpoint. In the first half of the 1950s it received only about 20 percent of public and private development expenditures. In the second half of the 1960s East Pakistan's share increased to only 36 percent of total development expenditure (Kumar and Raychaudhuri, eds. 1983, 1022-1024; Syed 1980, 77).

Commenting on this disparity, the East Pakistani panel of economists in their report to the Planning Commission pointed out:

The administrative effort for plan implementation was basically limited by the absence of East Pakistanis at the top executive positions both in Central and Provincial Governments. The former was responsible for the lack of the right kind of motivation of the central administration toward the development of East Pakistan. The latter was responsible for the lack of requisite leadership in the Provincial administration for the initiation of economic development in East Pakistan. And it is well known that in Pakistan the initiation, formulation, and the implementation of development projects and policies were primarily undertaken by the bureaucrats in the top executive positions. (Reports of the Advisory Panels for the Fourth Five-Year Plan 1970-75, vol. 1, pp. 27-28)

Not all classes in East Pakistan were suffering. Data show that incomes began rising in East Pakistan during the first half of the 1960s at a much faster rate compared to West Pakistan. In 1966-67 there was an increase of over 10 percent in the average income per household, while there was a 32 percent increase in the income of the top 0.6 percent households. Although this rate of increase was faster than that of West Pakistan, due to the pre-existing income differentials, the gap between East and West Pakistani elite was maintained.

The Ayub government tried to extend the class configuration of West Pakistan to East Pakistan in view of the highly imbalanced division of assets and consequent dissatisfaction in the Eastern wing. The state, by buttressing the commercial and industrial class in East Pakistan, tried to form a new ally. This became evident with the rise of industrial establishments and business-houses that were concentrated in the center of East Pakistan. The periphery continued to suffer there.

We may conclude that the Pakistani state internalized the relationship between colony and master. It did not usher in the change

it had promised. It reproduced the British/Indian relationship in a smaller setting and in the context of East Pakistan. That is, Pakistan reproduced the unequal relationship within. Exactly the same policies were pursued which the state professed to circumvent. It created unequal trade and exchange relations within regions and claimed that it was the result of certain policies that aimed at the development of the country as a whole so it would be strong. Therefore, Pakistanis were expected to bear hardships and inequalities.

#### Contradictions Within West Pakistan

The Second Five-Year Plan warned that "It will be necessary to tolerate some initial growth in income inequalities to reach high levels of savings and investment" (Noman 1988, 40). Distribution was to be postponed to some future date when the initial industrialization process had been achieved.

Class contradictions were sharp inside West Pakistan. The concentration of class ownership of wealth in West Pakistan led to regional cleavages and autonomy movements. However, class configurations blurred as regional demands for autonomy became increasingly intense. The challenge to the authority of the ruling elite emerged from the underprivileged regions within West Pakistan--in the NWFP and Baluchistan--and in East Pakistan (Ahmed 1984, 131).

This concentration was the result of an economic growth model based on the concept of functional inequality. In other words the initial stages of capitalist development entailed a high degree of inequality that is a necessary evil. Gustav Papanek, chief of the

Harvard advisory group in Pakistan, paraphrased Adam Smith by suggesting the "social utility of greed," whereby individual greed of industrialists would lead to a larger national cake and eventually benefit society (Noman 1988, 40). By the end of the 1960s it was obvious that "trickle down" did not work. Income had increased but it remained in the hands of a few people. There is in fact evidence that the effects of the growth strategy were far more adverse for the bottom 50 percent of Karachi's population than the bottom half of the rural income scale (Kumar and Raychaudhuri, eds. 1983, 1025).

The government's development strategy took a heavy toll on the common person's standard of living. Industrial development under high protection meant higher prices for the consumer goods that were manufactured locally. These could have been made available to the population at much lower rates if high tariffs and customs duty were not imposed on foreign goods. Since the majority of the population was rural, it suffered as the terms of trade were in favor of industry rather than a stagnant agriculture of the 1950s. Additionally the effects of the United States' PL480 Program, lack of government interest in agricultural sector development as opposed to the industrial development reinforced an inequitable system in which a select group of traders, industrialists, merchants, bureaucrats and other government professionals thrived, while the subordinate classes suffered.

With a heavy focus on strengthening the industrial elite in both East as well as West Pakistan, the Pakistani government had to face social unrest in both wings of the country. Mahbub ul Haq's public disclosures of the concentration of wealth within 22 families who

owned 66 percent of industry, 97 percent of insurance and 80 percent of banking led to widespread demonstrations and instability in 1968-70 (Noman 1988, 41). As a result, after 1968 these 22 families ceased to make new investments, consequently industrial growth declined sharply (Bhatia 1979, 95). Combined with a sharp decline in foreign aid, a crisis situation began to build up. The government attempted to solve the resultant threat of political instability with the use of the coercive apparatus--the army--but was unsuccessful. Pakistan was in crisis as the ruling class was neither ruling nor leading any longer.

The new middle class had begun to emerge by the late 1960s, but the phenomenon remained more or less ignored during the early 1970s. Most analysis concentrated on the tense inter-wing relations. The studies conducted during the 1960s and in the aftermath of 1971 focus on the break-up of Pakistan since that was the biggest trauma the country went through. We will discuss the emergence of the new middle class in detail in Chapter VII.

Although the agricultural sector suffered, yet due to green revolution technology it picked up in the latter half of the 1960s. However, this did not mean that all people gained from this phenomenon. It was the middle and big farmers who gained substantially, not the peasants or small landowners or sharecroppers. (Extensively documented as in Khan 1980, Burki 1976, Alavi 1976.)

The green revolution had results similar to the regime's industrial policy. It promoted the established landed elite who already enjoyed

a comparative advantage over others. The "others" were the small landowners and sharecroppers for whom the added advantage granted by the government to the landed elite made competition even harder. A parallel exists between agricultural and industrial policies. Just as small business could not compete successfully against big business, similarly the advantages of the green revolution exacerbated income differentials among the rural population.

#### Class and State

Two important questions are raised in the context of the Ayub regime. First, what made the Ayub government invest so much in the industrial class, at the cost to the subordinate classes, the regional inequality and autonomy movements? Second, why did the state encourage industrialization at the cost of the agricultural sector despite the presence of a dominant landed class? This involves a study of the agricultural elites' inability to transform their capital into industrial investment.

The cooperation between the states and industrial elite led to industrial concentration in the hands of a few families and inequalities between regions of the country. While the fortunes of the top 40 owners of industry fluctuated, what is important to this study is the ascendance to power of this group, and the maintenance of that ascendance. Regional concentration of industrial assets reflects the interests and influence of this group. As the owners of industrial capital were largely migrants from India<sup>4</sup> who settled in Karachi and

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<sup>4</sup>In particular the Bohras, Khojas, and Memons--communities from western India.

Lahore, or were from the Punjab, they established much of their industry around these cities. Industry became concentrated in seven districts of the Punjab and the city of Karachi (UNIDO 1985, 7). International agencies, which provided loans for infrastructure development in these areas, reinforced the process.

Under the Ayub regime, state and class interests were assumed to synchronize. It was obviously a strong state, although at the end its collapse was signalled by the break-up of Pakistan. A blatant belief in, and promotion of, a developmentalist ideology was the hallmark of the state during the 1960s. Thus the industrial class was promoted openly. It was pampered and treated like a special child; the state made no attempt to hide its support for this class.

The period also demonstrates that the state alone was not responsible for inadvertent economic policies. International institutions had an equally important role in the shape and formulation of policy. The net effect was an erosion in the absolute hold of the bureaucracy over the system of granting licenses and state favors due to the liberalization policies introduced in the early 1960s under the directives of the World Bank and the United States funding and planning agencies. The corrosion in the powers of the bureaucracy was slight and spread over a period of several years. Conversely, the private sector continued to be overindulged by the state at the cost of other sectors.

It is important to remember that while the metropolitan sources of capital directly promoted comprador capital there was no explicit

alliance between the two. This is despite the fact that metropolitan capital was the main agent that reduced the power of the bureaucracy to the benefit of the indigenous classes.

The industrial class was so important to the state that not only did the latter create it, it also maintained it, besides helping it grow and acquire strength. Only after the 1967 announcements about the concentration of wealth in a few hands did the international agencies abandon this class and dub it "robber barons" (Papanek 1969, preface).

The industrial class therefore did not really need any direct representation. This had to do with the traditional outlook of this class. The big businessmen cultivated ties with the bureaucracy systematically at the individual level in a very well thought out/planned manner. The industrialists or their family members did not hold positions<sup>5</sup> within the bureaucracy. This informal network developed by the industrialists helped them substantially. At this point we need to analyze the complex web of the intersections between conflicting and compatible areas of interest between metropolitan capital, the local industrialists (decidedly the medium- and large-scale ones), and the apparatus of the state, the bureaucracy.

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<sup>5</sup>Personal interview with Hamza Alavi in January 1990 during field study. Professor Alavi explained the complex linkages that were traditionally developed by families with industrial assets. Generally these families ran their businesses as family enterprises so that all the brothers would be responsible for some aspect of the industry. Usually the brother who was good at socializing, i.e., public relations, would cultivate ties with the important functionaries in the bureaucracy so their business may proceed smoothly.

How do we analyze the relationship between the state and industrialists? Did the industrial class create any impediments in the way of implementation of state policy? The answer is in the negative because state policies and industrial class interests were generally in harmony with one another.

The Ayub regime was a strong developmentalist state which basically manipulated various classes in accordance with its needs. It rearranged the power of particular sections within the bureaucracy not only with the introduction of policies that made many items go on the free list, but also through the development of corporations which created new supporters within the bureaucracy for the regime. It also developed the power of the industrialists by providing them state patronage and favors. With regard to the agriculture sector, the regime appeased the elite. It made no secret of its support for the existing elite, and disinterest in the subordinate classes. While it appeased the dominant classes, we must remember that at no time was it subordinate to them or their interests.

The much advertised strength of the landlords in the national parliament was vindicated when the state was unable to levy agricultural tax due to the presence of a powerful agricultural lobby. This can also be viewed as a measure by the state to promote the status quo. The state did not wish to alienate any sector of the dominant classes while it ignored and scorned the subordinate classes. President Ayub did not hide his disdain for the poorer sections of the population, relying on dubious race theories to explain their "servility" and "lack of independent thinking." This is epitomized in his description of

the Bengalis which he wrote in "A Short Appreciation of Present and Future Problems of Pakistan" (1954). The attitude and assumptions are reminiscent of British thinking and way of dividing India into the martial races and non-martial races:

It would be no exaggeration to say that up to the creation of Pakistan, they had not known any real freedom or sovereignty. They have been in turn ruled either by the caste Hindus, Mughals, Pathans, or the British. In addition, they have been and still are under considerable Hindu cultural and linguistic influence. As such they have all the inhibitions of down-trodden races and have not yet found it possible to adjust psychologically to the requirements of the new-born freedom. Their popular complexes, exclusiveness, suspicion and a sort of defensive aggressiveness probably emerge from this historical background. (Quoted in Khalid Bin Syed 1980, 75)

The political and coercive apparatuses of the state, consisting of government, bureaucracy and the military displayed a uniformly similar attitude of derision toward the subordinate classes. This was so also due to the overlap between the two state apparatuses during the Ayub years when the latter injected the bureaucracy and military into the politics and governance of the country.

#### Conclusion

Industrial policy during the Ayub years was essentially the continuation of ISI introduced immediately after independence. The attempts at diversification, especially under pressure from international institutions, petered out without any meaningful new directions. The state pursued its goal of massive industrialization with a singleness of purpose that produced alarming results in the long run, with massive violence in East Pakistan and the breakup of the country in 1971.

The industrial policy of the Ayub regime strengthened the existing industrial elite, in contradistinction to the previous decade when a new class was created. Essentially the traders-turned-industrialists from the late 1940s and early 1950s were strengthened. Under the Ayub regime the new balance of forces among industrial classes from the 1950s crystallized; the new (dominant) class attempted to consolidate itself through state power.

Relations between the state and the industrial class were complex for there were areas of conflict and cooperation under the shadow of overall harmony until the late 1960s. Initially the state, also following the recommendations of international institutions, blatantly supported the industrial class. While international institutions weakened the power of the state bureaucracy by removing direct controls, the industrial class was put in a stronger position vis-à-vis the bureaucracy. This was achieved with the tacit permission of the state.

However, the state's attitude changed after the international institutions abandoned it 1965 onwards. The U.S. lost interest in Pakistan after it dismantled its military base in Peshawar, upon request from Pakistan.<sup>6</sup> Additionally, the use of U.S.-supplied weapons (meant to fight communism) when used by Pakistan against "democratic" India in the 1965 war--an action which the U.S. considered a breach of faith --brought the U.S. ban on further weapons sales to Pakistan. Pakistan, realizing its total dependence upon the West, attempted to seek

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<sup>6</sup>The USSR publicly threatened Pakistan with dire consequences if the U.S. base in Peshawar was allowed to operate in the wake of the U-2 crisis when it was discovered that Peshawar had been used for reconnaissance flights over Soviet territory.

alignments with China and the USSR. This distanced it from the U.S., following which institutions such as the World Bank did not wish to be associated with the repressive policies of the regime.

The industrial class found itself without metropolitan support in the shape of the World Bank and favorable policies implemented by the government due to pressure exerted by the Bank. The state also distanced itself from the industrial class, even though it continued to support it quietly for it needed the private sector to continue to invest in the crisis-ridden economy following the 1965 Indo-Pak war.

The relationship between the agricultural class and state was also that of conflict and protection in different areas. The agricultural sector's strength (as seen in its representation in the formal government assemblies) was trumpeted by the media. However, this class gained no additional strength from the regime; neither did it lose its former power, for the emphasis on rural development ensured that big landlords had control over who received advantages. International institutions attempted to reverse the terms of trade against agriculture; the government's exports bonus scheme was devised to achieve this objective. Similarly the research at the International Rice Research Institute (IRRI) and later at CIMIT in Mexico on new wheat varieties greatly increased agricultural yields. The green revolution was introduced with the help of international institutions through their aid and prescribed policies. The green revolution strengthened the big landowners. Thus due to state policies and

international institutions the landed elite were able to maintain their class position.

The dynamics of the green revolution provided impetus for a new sub-class of middle-class farmers to emerge. The emergence of the new middle-class farmers was not so much the result of a conscious official policy decision to create and then strengthen this class as had been the case with the industrialist class in the 1950s. This sub-class of agriculturists was a by-product of the green revolution.

The rise of the new middle-class farmers was coupled with the emergence of small-scale industries (SSI). Again, the government provided no direct deliberate impetus to SSI growth initially. The rise of SSI can be connected to the green revolution because demand for water pumps and farm implements increased. Small foundries emerged. This phenomenon contributed substantially to the rise of a new class of entrepreneurs. Thus we find that the dynamics which are responsible for the rise of new class factions in Pakistan are embedded in the 1960s, although the results were not discernible for more than a decade. These developments are discussed in detail in Chapter VIII. The impact of these classes on the state and politics of Pakistan has been substantial, although in the 1960s no one could predict the changes that took place over the next decade.

The state during the 1960s was strong. That does not mean, however, that it was independent of classes. As is demonstrated by the rise of the subordinate classes in East Pakistan, the state was successfully challenged. The rise of the subordinate class was contested by the state, ultimately with its coercive apparatus. Its

failure made it possible for new class configurations to arise which in the initial stages provided hopes for positive change. That these hopes proved illusionary was proven by the Bhutto government's performance, which is discussed in the next chapter.

CHAPTER VII  
THE BHUTTO YEARS (1972-1977)

Zulfiqar Ali Bhutto won an impressive victory in West Pakistan when parliamentary elections were held for the National Assembly for the first time in 1971. His party's agenda was based on secular concepts and not the "Islam is in danger" slogans that other parties were wont to use. His formula for popularity was the promise of basic necessities such as housing, food and shelter for the common people. He was the first leader who approached the masses dressed like them (as opposed to a western-style suit which only the educated and privileged classes wore). He went to the people and appealed to them as being from amongst them. He promised to fight the oppression of Martial Law and the economic policies of the Ayub regime that had been formulated on the acceptance of the hard reality that there would be inequitable distribution of wealth and income. Bhutto tried to present himself as the personification of all that was against the ill-fated policies of the previous two regimes. He pledged social justice to the poor and vowed to give them the status and standard of living that they deserved.

The breakup of Pakistan in 1972 was a blow to its people. Although Bhutto was unable to capture an overall majority vote, he did succeed in getting the majority in West Pakistan. By that logic, after the breakup of Pakistan, he became the natural choice for running the government on the basis of a popular mandate from the people of

that region. The Pakistan army, which was in charge of the country under Yahya Khan, was thoroughly demoralized. The terms of surrender to the Indian army in 1971 were the most humiliating:

The Pakistan High Command agree to surrender all Pakistan Armed Forces in BANGLADESH to Lieutenant-General JAGJIT SINGH AURORA, General Officer Commanding in Chief of the Indian and BANGLADESH forces in the Eastern Theater. This surrender includes all Pakistan land, air and naval forces and also all para-military forces and civil armed forces. Those forces will lay down their arms and surrender at all the places where they are currently located to the nearest regular troops under the command of Lieutenant-General JAGJIT SINGH AURORA.

. . . The Pakistan Eastern Command shall come under the orders of Lieutenant-General JAGJIT SINGH AURORA as soon as this instrument has been signed. Disobedience of orders will be regarded as a breach of the surrender terms and will be dealt with in accordance with the accepted laws and usages of war. (Burki 1980, 59-60)<sup>1</sup>

Under the conditions imposed by the Indian intervention, the morale of the Pakistani army fell to an all-time low. It was demoralized because Indian troops marched to Dhaka without any resistance and the generals signed the instrument of surrender without any opposition. At this point the army was ready to hand over power to any acceptable politician since it had lost credibility and was no longer in a position to rule.

That the army was in no position to rule the country directly is correct, yet to restrict this analysis to this crude generalization will not suffice. The army had ruled alone in the past. It shared

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<sup>1</sup>For a text of the surrender document see, D. K. Palit, The Lightning Campaign: The Indo-Pakistan War, 1971 (New Delhi: Thompson Press, 1972), pp. 48-49.

power with other institutions and classes. Although the military took over the formal reigns of government in 1958, it had always run the country in collaboration with the bureaucracy. This role did not entirely change with the Yahya takeover of 1969. The military was exercising the ultimate power of the state in its bid to keep state autonomy intact and to remain at the top, towering over classes and their clashes. In fact, a thesis exists--that the military expected mixed results from the breakup, when no political party would have a clear-cut majority in the new Pakistan. In the absence of a consensus among political parties, the army would continue to rule and control directly. This thesis is questionable, however, because to attribute pure ambition for direct power to Yahya Khan would be contrary to the fact that he was personally uninterested in ruling Pakistan in the midst of the crisis and was anxious to hand over the government to politicians. The military-bureaucratic alliance of the 1960s had failed miserably in its development plans for the country. In the second part of the 1950s the first Five-Year Plan's (1955-1960) publication was delayed until 1958 because the National Assembly members could not reach a consensus over the economic goals of the country. Only after Ayub Khan took over did the Plan get published (Burki 1980, 60-67). This was possible because he quelled all possible opposition and pursued the development plans envisaged by American advisors aggressively. This blind faith in America cost Ayub his regime and the country half its land and people. It was recognized from the outset that a growth-oriented strategy would

result in unequal and uneven development but the regime's policy makers believed that in the initial years these sacrifices had to be made if the country was to progress. People, therefore, were told (and expected) to suffer inequities in the name of economic development. A number of junior military officers experienced the same outrage that the majority of the population expressed at such presumptions (Burki 1980, 69-71).

Bhutto was brought to power by middle-level officers, largely colonels and brigadiers, who were disgusted with the ineptitude of their commanders and their superiors--the generals who had agreed to the surrender. These middle-level officers also observed the deterioration in the standard of living of the middle and lower middle class. They did not necessarily agree with the elitist thinking of their superiors, who were trained by the British. These officers demanded civilian rule and made clear that their choice rested on Bhutto (Burki, *ibid.*).

Bhutto, who was disdainful of the generals and privately called them "fat and flabby," held them responsible for the chain of events that led to the breakup of Pakistan. Although he never publicly criticized the military, he took full advantage of its defeat in both East and West Pakistan. He spearheaded the idea that the military should be sent back to the barracks where it belongs. Also, he utilized the general mood both within the army and the country to increase civilian rule. Taking advantage of the crisis, he was able to usher in changes that otherwise would have been almost impossible

to introduce. He made key military appointments himself and abolished the positions of commander-in-chief of the three forces. Thus he was able to get rid of some powerful generals and replace them with his own handpicked choices. Similarly he initiated reforms in the civil service that vastly diminished its hold over the administration of the country; he instituted reforms and changes in other service structures as well as government institutions and policies.

### Economy and Politics of the Country

#### Structural Limitations Upon the Bhutto Regime

Political conditions in the early 1970s created gaps as well as constraints upon Bhutto's freedom of action. The political crisis gave Bhutto enough leeway to introduce totally new sets of policy changes. However, there were structural constraints ranging from natural conditions such as the weather to international economic conditions over which the regime had no control but which affected its choices and colored its evaluations.

No regime operates in a vacuum. It has to be equipped and prepared to deal with unexpected international events and their ramifications upon its economy. The ability to exercise damage control (so far as international events are concerned) determines to a very large extent a regime's measure of success.

East Pakistani academics and politicians believed that their part of the country had been converted into a colony of West Pakistan and that East Pakistan was the chief source of foreign exchange and provided West Pakistan with markets for its substandard manufactured

goods. This was largely believed in both wings because of the extensive poverty prevalent in East Pakistan. Therefore, the first task of the new Pakistani government in the economic sphere was to ensure that the country continue to function and remain economically viable and stable. This was no easy task considering the psychological and physical barriers in the way. What must go to the credit of the new government was that it was able to steer the country clear of an impending economic crisis. There are several reasons for this: first, and foremost, the belief that the economy of West Pakistan had been milking and flourishing on the basis of East Pakistan's jute turned out to be slightly exaggerated. If money was taken out, public expenditure was also invested in that wing due to the annual floods and food needs of its population. Thus in one sense West Pakistan's economy was not deeply affected. It had to make adjustments but the loss of East Pakistan and its contribution did not constitute the deep blow that it was generally expected to be. Statistics had been inflated and were totally unreliable because politicians and academics had tampered with them whenever it suited them. Also, the increase in the international commodity boom helped Pakistan diversify its products to outside markets, which resulted in increased exports, i.e., what had been sent to East Pakistan markets was now exported abroad, earning foreign exchange for a government facing fiscal crisis.

Military action in Bangladesh had also entailed enormous military spending. Some difficulties arose from the fact that the 1971 war with India led to increased inflation as the country had to spend

heavily on transferral and maintenance of 100,000 troops and equipment to its eastern wing.

The difficulties resulting from the war with India and secession of East Pakistan were compounded by the world energy crisis of 1974. The increase in oil prices led to a continuous price hike of most manufactured commodities, playing havoc with the economies of non-oil-exporting countries. The Pakistan government had to face unforeseen changes that were unexpectedly negative in their impact. The international economic recession that led to inflation also replicated itself in Pakistan. Deficit financing was instituted as a policy measure resulting in a \$3.4 billion deficit between 1972 and 1977. The inflation rate during this period was 18.1 percent. Per capita income was only 1.7 percent annually. The rate of population growth was 3.6 percent per year during the same period.<sup>2</sup> These factors contributed toward raising the cost of living for the entire population, making the achievement of social justice as remote as it had been during the 1960s.

Another misfortune the government had to face was the world slump in cotton trade at roughly the same time as the energy crisis. Cotton, still one of Pakistan's major cash crops, when exported, did not generate the foreign exchange earning it could have potentially achieved, resulting in decreased revenues for the government.

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<sup>2</sup>As quoted in Government of Pakistan, White Paper on the Performance of the Bhutto Government, Vol. III (Islamabad), 1979, p. 6.

Aside from these factors, yield per acre fell steadily because of abnormally adverse weather conditions (a combination of floods and droughts). The monsoon rains did not come on time in 1974, 1975, and 1976. Non-availability of water from the Tarbela Dam, which supplies irrigation water to the Punjab, was an additional hardship outside government control. This affected Pakistan's crop output drastically, so that it had to borrow from international agencies to buy foodgrains.

How much of the dismal performance can we lay at the door of Bhutto, who assumed power with promises of introducing a better system of government? And how much can we ascribe to forces over which he and his regime had no control? How well did the government perform with regard to managing the industrial sector? These are questions that are extremely difficult to answer. However, we can begin by examining the industrial policy and priorities of the Bhutto regime systematically.

#### Phase III of Pakistan's Industrial Policy (1971-77)

Drastic policy changes usually take place in the aftermath of a political crisis. Pakistan was no exception. The breakup of Pakistan resulted in the formulation of a new policy and a new configuration of forces. The ruling classes as well as the hegemony of ideology had become delegitimized in Pakistan. This point is marked by a shift in policies.

In 1972, industrial policy experienced a major change in terms of scale and sector. Emphasis shifted from light manufacturing to heavy industry; from private to public sector investment as well as

state management. These changes should not have come as surprises because they could have been anticipated if one were to read Bhutto's Pakistan People's Party's (PPP) election manifesto and other party documents. Most people, however, regarded these statements as mere rhetoric and considered them to be PPP antics to gain popularity. Obviously the Party's rhetoric deserved serious attention. What was the People's Party agenda and how did it propose to implement it?

#### The PPP Agenda for Industrialization

The PPP clearly stated that Pakistan's industrialization course was essentially flawed right at inception (Foundation and Policy, n.d., 58) in giving the capitalists enormous profits at no risk to them, with the corollary that they were under no constraint to invest economically and to work their factories efficiently. The party also outlined the defects of the planning process in Pakistan (which we will discuss later in the chapter).

The People's Party proposed a "mixed economy"--the "existence of a private alongside a nationalized sector" (Election Manifesto, n.d., 18). It proposed that all major sources of production of wealth be placed under the public sector. However, in the same breath it assumed the existence of a robust private sector which was to "offer opportunities for individual initiative in the areas of production where small enterprises can be efficient. Monopoly conditions will be abolished, so that private enterprise will function according to the rules of competition" (Ibid.).

The PPP pleaded for "Islamic socialism" by asserting that if the Scandinavian countries could design socialism to their own needs, Pakistan could also modify it to Islamic principles. The general principles for "socialist reforms" can be termed ambitious at the very least. First, the PPP stipulated that the means of production on which other industries depended should not be allowed to fall into the hands of private investors. Second, infrastructure industries were to be placed under public ownership and, third, that institutions dealing with the medium of exchange, that is, banking and insurance, were to be nationalized.

The PPP outlined its nationalization program as consisting of four major sectors. The first was financial institutions, banks and insurance companies. The second group covered all the key industries consisting of:

1. Iron and steel production
2. Non-ferrous metal production
3. Heavy engineering
4. Machine tools for industrial use
5. Chemical industries, including petrochemicals
6. Shipbuilding
7. Arms, ammunition and all armament for defense
8. Motor car assembly and manufacture
9. Essential electrical equipment for power production, distribution and use
10. Cement

11. Paper

12. Electronics

The third sector included all sources of energy supply and consisted of electricity, gas, oil, and coal. The fourth sector included all major means of transportation, meaning railways, shipping, airways, and road transport (PPP, Foundation and Policy, n.d., 35; Election Manifesto, n.d., 19).

After enumerating all the means of production that the PPP wanted to nationalize, it went on to assure the private sector that it could continue to make profits in the following way:

The private sector will play its own useful role in the kind of mixed economy envisaged, but will not be able to create monopolistic preserves. It must flourish under conditions proper to private enterprise, namely those of competition, and not under the shelter of state protection such as is the case at present. The socialization of the key sectors of industry will give the chance to able men in the field of technique and management to put forward of their best. Nationalization will not destroy individual initiative; it should on the contrary act as a stimulus by releasing the suppressed energies of the working class and other wage-earners as well as the qualified technicians. (PPP Foundation and Policy, n.d., pp. 35, 36)

Despite such assurances to the private sector industrial development under the Bhutto government (1971-77) suffered a number of setbacks. To stop dishonest means of accumulating wealth, especially in the industrial sector, the PPP gave assurances that 80 percent of the industrial sector would not be in private hands (Election Manifesto, n.d., 23). Therefore, the Bhutto government adopted a "new phase of industrialization" consisting of huge public sector investments on large capital-intensive industrial projects. These included the

building of a steel mill, investing in shipbuilding industries, petrochemicals, fertilizers, heavy chemicals and cement (Burki, 1980, 163, 176).

In a sense Bhutto's industrialization strategy was a continuation of ISI but emphasized intermediate and capital goods rather than consumer goods. The state was to provide the bulk of the investment because it wanted to control the "commanding heights" of the economy. Such ambitions were not new. The state had earlier played an important role in industrialization through the establishment of the Pakistan Industrial Development Corporation in the early 1950s. The PIDC had been established for promoting public sector investment, and it had begun to invest in intermediate and capital goods industries by the late 1960s. Its projects included the Pakistan Machine Tool Factory, the Heavy Mechanical Complex, and the Heavy Foundry and Forge Project. When the Bhutto government emphasized public sector industrialization, it was augmenting the role already undertaken by the public sector. Under Bhutto there was investment in steel, fertilizers, heavy chemicals, cement, textiles, and engineering.

Due to its emphasis on the public sector, the Bhutto regime built the institutional framework and support required for an increased public sector role. It created the Ministry of Production to coordinate and administer the activities of the public industrial sector and established the Board of Industrial Management (BIM) to control and monitor the various enterprises, with the Minister of Production as its chairperson. Public sector industries were grouped into twelve corporations under the BIM.

The public sector incurred huge losses because it was used as a vehicle for government patronage, e.g., employment in the public sector increased 58 percent by 1976-77 while its wage bill increased fourfold. Its operations could not cover its own costs, so that most of its budget came from the federal government's borrowings from financial institutions. Self-financing by BIM constituted only 3 percent of the total (Hamid 1989, 25-26).

Industrial performance under Bhutto deteriorated sharply, especially in LMSI. During 1972/73 LMSI grew 9 percent as compared to 5 percent in 1973/74. This growth became negative in the 1974/77 period. Growth during the 1972-74 period was the result of an increased demand for goods in the domestic markets after three years of crisis, combined with a worldwide commodity boom. The latter helped Pakistan export items it had previously marketed in East Pakistan. However, this situation was transient; following the 1974 oil crisis and devaluation of currencies, Pakistan was faced with a crisis in its industrial sector.

Private sector investment continued to fall and in 1973-74 had reached 28 percent of its 1969-70 level. After 1974 it stagnated and ceased falling further. The public sector assumed a much larger role, and its investment grew from Rs.165 million in 1973-74 to Rs.1394 million in 1975-76 (at constant prices), leading to an increase from 10 percent to 80 percent in LMSI investment (Noman 1988, 167). The disappointment with public sector enterprises has already been documented, so that overall we may conclude that industrial policy under Bhutto was a burden upon the state.

Why did industrial policy fail under Bhutto? There are several reasons for it. After Bhutto took over, an atmosphere of uncertainty was created when he struck at the interests of the ruling class sections one after another. Clearly Bhutto was not to be trusted. The bitterness of industrialists is visible to this day as borne out through personal interviews with them.<sup>3</sup> A major emphasis was put on the element of unpredictability--a hallmark of Bhutto's erratic policies.

These erratic policies were to a large degree the result of bad planning on the part of the government and hastily devised methods of implementation. Although the PPP had outlined the nationalization policy it intended to pursue, there was no agreement among its members about the methods of implementation. There was considerable tension between the PPP left and the conservative elements in the PPP. The left resorted to hasty nationalizations as a result of its determination to implement these policies while it enjoyed an influential position in government. It became insecure about its power within the party

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<sup>3</sup>Two leading industrialists who requested anonymity because at the time of interview Benazir Bhutto was the prime minister and they did not want to risk anything, clearly expressed their frustration and feelings of betrayal with regard to Z. A. Bhutto. They accused him of going back on all his promises and asserted that he was totally untrustworthy and unpredictable. They quoted his December 1973 address to the Pakistan Chambers of Commerce and Industry in which he asked them to invest more in industry, and then literally the next day signed papers for the nationalization of their industries. Such behavior and actions did not inspire confidence in the regime or the prime minister.

and government after a leading member of the left, Dr. Mubashir Hassan, the finance minister, was replaced with a more conservative candidate by Bhutto who feared middle-class alienation due to the drastic policy measures unleashed by the PPP Left.

Industrial growth during the Bhutto regime stagnated but the gap could have been filled either with (1) more efficient management of nationalized units; or (2) letting medium- and small-scale industries fill the gap. But the latter were unwilling to invest in a tense and uncertain atmosphere, while efficient management of the nationalized units proved to be an almost impossible task. The nationalized units proved to be an almost impossible task. The nationalized industries had accrued large losses, so that the state had to take responsibility for them. Second, the new managers were bureaucrats who lacked the necessary know-how to run a successful factory operation, let alone convert an establishment incurring losses into a profit-making enterprise. Additionally, the nationalized units' primary aim was to keep providing low-cost intermediate and manufactured goods. This was impossible to achieve without state subsidies. Since the government wanted to keep prices for the urban sector low, it continued to subsidize the nationalized establishments despite advice to the contrary from the World Bank.

#### Planning Under PPP

Although the PPP had outlined its agenda of nationalization in its program to the people, it had not laid out the groundwork for implementing it. Therefore, most policies were haphazard and badly

thought out. This situation was aggravated further by Bhutto's rejection of long-term planning. His and his party's antipathy can be clearly discerned in the various documents of the party. Bhutto blamed the Harvard Advisory Group and the Planning Commission for the economic gap between the two wings, and for the accumulation of capital in a few hands. He also blamed the two for the widening gap between Pakistan and the industrialized world, as the following quotations demonstrate:

. . . (the Harvard Advisory) Group has been the intellectual assistance the U.S. has brought to Pakistani planning and has dominated every aspect of the Planning Commission's work; for the Pakistani economists there (at the Commission), were not normally competent enough or politically conscious enough to begin to oppose the dominance of American theories that the Group imposed. (PPP Foundation and Policy, n.d., 52)

Foreign advisors teach Pakistan's planners that the art of manufacture is difficult . . . It is shameful that our so-called planners have meekly accepted it; and not only accepted it but have proclaimed through out the world their delight at the praise bestowed on their docility and incompetence: that we are efficient aid users. (PPP, Foundation and Policy, n.d., 58)

. . . the adoption of an economic system permitting outright plunder of the people, the concentration of wealth in a few hands, the sharing out of power, employment and sources of wealth between businessmen, big landlords and the classes that comprise the civil and military hierarchy of government--all these have brought the country to a general crisis, another word for general ruin.

. . . The ruling clique supporting the vested interests of banking, industry, and commerce, have nothing to offer to save the situation except the same old magical incantations of budgetary formulas and development plans. (PPP, Election Manifesto, n.d., 10)

Bhutto held the Planning Commission responsible for the debt trap that Pakistan had fallen into. He quoted trade deficits and asserted that these did not occur before 1956-57. After 1958, due to foreign aid and bad planning, trade deficits were created and increased at a fast pace. This was the result of the ill-advised policies followed by the Planning Commission. This belief led the Bhutto government to discard long-term planning associated with the HAG and Planning Commission economists, to cut down the power of the Planning Commission, and to introduce annual plans.

Annual plans, while attractive on surface lacked continuity. They were good for unforeseen contingencies, but their ad hoc nature made them incapable of providing a sense of security to investors in an unpredictable political environment. This state of affairs was further exacerbated by the reorganization of various government institutions. The connections that various investors had nurtured became meaningless. More importantly, with a shift in the power of the various government institutions, considerable confusion was created, so that new investments were minimal.

The Annual Plans affected the organization of the PPP negatively as well. They highlighted the diametrically opposite political stands within the PPP. Serious conflicts took place between the radical and conservative elements within the party. The party was torn asunder, with numerous members leaving it in disgust. Consequently the party lost its credibility with the public.<sup>4</sup>

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<sup>4</sup>Burki has given a detailed description of the events of those years of internal conflict over policy. For further details see Burki 1980, pp. 108-168.

In terms of strategy, what was Bhutto's policy? There was no long-term strategy as such. The government tried to enhance its power by initiating massive projects. It invested in a steel mill in Karachi, in nuclear plant processing, in heavy complexes, in the construction of roads and huge stadiums (Burki 1980, 163). All of these projects entailed substantial costs, so that public sector investments increased enormously.

The most important PPP policy in the economic arena was that of nationalization. This policy dominated all else throughout the six years of PPP rule. Although from 1972 to 1974 policy was dominated by the PPP left and between 1974-1977 by conservative elements, yet the theme of nationalization remained constant. Therefore, a detailed examination of the nationalizations carried out under the Bhutto regime and their impact on industry follows.

#### Nationalization Policy

In January 1972, Bhutto issued the Economic Reform Order which took over the management of 32 privately-owned Pakistani firms. This was the first dramatic nationalization, followed by waves of other nationalizations. Life insurance was nationalized in March 1972; cooking oil was taken over in September 1973; shipping, marketing of petroleum products, and banks were taken over in January 1974; and finally wheat, rice and cotton ginnig in the summer of 1976. Additionally, there were major labor reforms, nationalization of schools, while new drug laws and generic drugs were introduced.

Each wave of nationalization was followed by promises to the private sector that no further reforms would be introduced. But as the government's track record demonstrates, it did not live up to its assurances. During the first two years, the relationship between the industrialists and the government was one of mutual accommodation. While the business community was apprehensive about the government's stance and takeovers, 80 percent of Pakistani industry was still under private sector control. However, the credibility crisis began with the January 1974 nationalizations, which are popularly known as Bhutto's New Year's gift to the business community. This description itself portrays the bitterness of the industrialists. Before the September 1973 cooking oil takeovers, owners of medium-scale industry felt apprehensive, but because the government had targeted the big industrialists, there was secret elation among the small- and medium-scale industrialists. However, cooking oil factories fell within the category of medium scale, which jolted the owners of industry. This effect was magnified by the 1974 nationalizations. Combined with the government's refusal to provide adequate compensation, the private industrial sector was beset by general depression. Bhutto attempted to make his promises more credible this time by reshuffling his cabinet, removing some of the more vocal left-leaning leaders, and giving further assurances of government support.

The private sector reacted with three types of attitudes. The big industrialists displayed an attitude of "wait and see." The second group, consisting of business associations, decided to follow a course of accommodation and tried to reach a compromise with the PPP

government. Numerous businessmen offered to finance the party in return for party tickets for contesting elections, but were refused. The third group in the community wanted to follow a course of open confrontation. However, this group was soon silenced by government withdrawal of licenses and permits, and the threat of further public arrests (Kochanek 1982, 215).

The nationalization of small-scale enterprises brought production down in 1976. Textile owners refused to modernize their plants. Some owners closed their factories so that unemployment increased. The output of cotton cloth and yarn declined for the first time in Pakistan's history from 550 to 440 million square meters for cloth. This put serious pressure on the price of this basic commodity (Burki 1980, 178). People began to get restive due to decreased employment, higher prices, and a double-digit inflation rate. There was growing insecurity among workers and investors. These conditions eventually gave rise to an anti-Bhutto opposition.

#### Critique of Nationalization Policy

The government policy of nationalization was counter-productive both on account of the inefficient management of industry by the bureaucracy and the resultant increase in government subsidies, and in terms of the distance and distrust created between government and industrialists.

While Bhutto claimed that he wanted to introduce a mixed economy, his nationalization program was neither efficient nor sincere in its commitment to this end, especially in the later years. His government

saw state intervention as a means of enhancing the party's power. It was also a means of distributing largesse--favors that the political leadership could later claim interest on.

The public sector enterprises did not perform well. Although they brought with them accumulated losses of Rs.254 million to start with, they were neither able to generate employment nor increase production. The government had to subsidize these corporations further in order to keep the various enterprises that came under these corporations functioning (Noman 1988, 86). Public sector investment rose from 5 percent in 1970-71 to 74 percent in 1976-77 while private sector investment declined (Noman 1987, 79-80, 86).

#### International Linkages

The Bhutto regime was the most vocal about its intent to break out of its dependent status, yet this was a hard, if not impossible, task. There was pressure from foreign creditors to show profits while the poor performance of the public enterprises increased the resource constraints faced by Pakistan.

#### Pakistan's Need for Aid

The public sector had to compensate for private sector investment decline. Therefore, its dependency on international donor institutions increased. The country was faced with a host of problems: inflation was at a peak of 30 percent in 1973-74. Due to higher oil prices the government had to print more money and resort to deficit financing. The need arose because of: (1) non-development expenditures such as

defense; (2) slow growth of commodity-producing sectors; (3) the slow growth of indirect taxes, a side effect of stagnant economic activity. Direct taxes did not account for much either because of leakages and a corrupt administration; (4) a fall in private savings, which deprived the government of an alternate source of resource mobilization. Public savings were negligible, because of bad performance of public sector entrepreneurs, poor returns on deposits, and disincentives to save. Since inflation was well in excess of interest rates, savings lost 20 percent of their value in 1973-74 (Noman 1988, 89). Thus there was further inflationary pressure, which the government tried to tackle by providing subsidies to the poor. Inflation also led to urban protests. The government tried to cushion the poor--but alienated the middle class, which was already inimical towards the government's education policy (nationalization of schools without an alternate source of good schools). Inflation was brought down from 30 percent in 1973-74 to 10 percent in 1977. This was possible only with the help of international aid.

Investment in the public sector nearly tripled between 1974 and 1977 from Rs.6700 million to 18,203 million. Savings did not increase commensurately partly because this investment did not generate employment. The state had to depend more upon foreign capital flows, which mounted dramatically. Debt increased to \$7 billion in 1977, and Pakistan acquired one of the highest debt service ratios in the third world despite obtaining debt relief. Forty-four percent of its merchandise exports went into debt servicing (Burki 1980, 163).

From the Donor's Point of View

Pakistan's economy was in a precarious position. It had spent a considerable amount of capital financing the 1971 war with India, and prior to that in its attempt to suppress the autonomy movement in the former East Pakistan. When the Bhutto regime embarked upon its huge projects, it had no option but to rely heavily on international aid. However, aid was not forthcoming. The war in Vietnam and the general mood of the U.S. Congress toward large foreign aid commitments meant that aid to Pakistan had to be curtailed. Also, a large part of U.S. aid had come in the form of commodity aid under the PL480 program. Commodity aid was comprised of wheat shipments, which had the disadvantage of being immediately consumed, while future generations had to pay for it (Bhutto 1968, 12).

Donor agencies imposed stringent conditions regarding repayment besides specifying the geographic regions where aid could be invested. Between August 1970 and October 1972 the World Bank refused requests for new project lending to Pakistan. After 1972, the Pakistani government formulated policies more in tune with the priorities of the Bank's President, Mr. Robert McNamara. Namely, the government began focusing on the issues of poverty, employment, and income distribution--issues which gained prominence in the late 1950s and early 1970s with both aid donors and aid recipients. It was expected that the Bank would support Pakistan. However, there were other considerations and circumstances that came in the way. The most important was Pakistan's ability to repay, i.e., its credit worthiness. Bank staff needed to ensure the security of the Bank's investment.

In 1971-72 Pakistan enjoyed very little sympathy. International opinion had turned against it due to the troubles and massive violence in East Pakistan; the Bank staff felt responsible for their ill-advised policies that contributed to the violent events in East Pakistan. Therefore, the Bank began to mount a substantial program for Bangladesh. This decreased the funding available for Pakistan.

Aside from the decrease in the amount of funding available to Pakistan, wrangles occurred over the division of Pakistan's foreign debts incurred before breakup. For almost three years the Consortium was preoccupied with settling the share that Pakistan was to pay. Pakistan had put a moratorium on official debt repayments in 1971 and this continued until major debt rescheduling took place in July 1974. All these factors tended to confine new commitments to Pakistan, so that very few new projects were initiated by the Bank during the first half of the 1970s.

The Pakistan government was in a precarious condition. It continued to need monetary support and debt relief. Therefore it was willing to change its policies to please the Bank and IMF policy-makers. It devalued its currency at the "request" of the International Monetary Fund. It also liberalized imports, unified the exchange rates and abandoned the export bonus voucher scheme on the advice of the Bank. Only after the implementation of these decisions was aid resumed though it did not increase to its previous level. Devaluation of the rupee had mixed results (i.e., it helped exports, yet increases in imports widened the balance of payments gap. It also gave rise to inflation in the long run).

There were other areas, however, where the concerns of donor agencies were ignored due to political pragmatism. The Bhutto government disappointed these agencies with its cosmetic socialism. Its land reforms were mild; landlords fared much better than the rural poor. Income distribution in fact worsened in both urban as well as rural areas. Also, the government's nationalization policies drove away private investment policies which were contrary to Bank policies. The government, to maintain the loyalties of the middle class, refused to take back the subsidies and tax exemptions it provided this class. It explained that it had to maintain these as well as other tax and tariff concessions in the face of bad weather (floods in 1973, drought in 1974) and, more importantly, in the face of the first oil shock. World Bank representatives could not reconcile themselves to these policies in the face of low savings rates in both the public and private sectors.

The Bank staff decided upon a course of preconditioned lending. They decided not to increase the Bank's presence in Pakistan and only continue with the projects they had initiated before the Bangladesh crisis. To make further lending available, they stipulated a number of macro-economic policy reforms for the Pakistani government. These consisted of specific projects in the agricultural sector, such as agricultural research, credit, irrigation, water management, salinity control, etc. The government was not inclined to take Bank "advice" and did not achieve much in its anti-poverty campaign.

The Bank was not the only source of funding to Pakistan; alternate sources of funding became available in the early 1970s. When the 1974

oil price hikes exacerbated balance of payments problems, Pakistan obtained aid from the Organization of Petroleum Exporting Countries (OPEC). Subsequently the importance of the U.S. and the World Bank as major aid donors decreased for Pakistan. What did this mean for the ruling class and for the direction of industrial policy? It signalled the flow of Pakistani grain as well as processed food to the Middle East, creating shortages at home which resulted in high prices and black markets for items such as sugar, wheat, rice, onions, etc. (Bhatia 1979). While this resulted in the enrichment of the petty bourgeoisie, it also meant an added emphasis on unity with Muslim countries interfused with a growing anti-U.S. attitude.

Industrial development during this period was heavily dependent upon state finance and reflected the government's attempt to restructure industrialization in accordance with the demands of the Middle East markets. Thus the construction industry, cement industry, and manpower export became government priorities.

#### Conclusion: State and Class Relations (1972-77)

The 1971-77 period in Pakistan's history is characterized by ambivalent relations between the government and different classes. The government announced land reforms but did not enforce them stringently. The implementation process was deliberately flawed. It nationalized ten key industries<sup>5</sup> but did not take ownership of the

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<sup>5</sup>Iron and steel, basic metals, heavy engineering, heavy chemicals, motor vehicle assembly and manufacture, tractor assembly and manufacture, heavy and basic chemicals, petrochemicals, cement and public utilities (Ziring 1977, 264).

industries; instead it became a manager. Similarly it brought in new labor legislation by introducing positive changes in the wage and labor welfare structure, but was not always sympathetic to labor and trade union demands for strict implementation of the new laws. Labor strikes and lockouts were harshly dealt with. Institutional reforms were announced and some of the top civil servants were removed from their posts but the structure of the civil service remained unchanged. All these reforms impressed the general public, increased the popularity of the regime in power and asserted the strength of the state vis-à-vis the different classes.

Realizing the risks involved in supporting the established agricultural and industrial elite, the Bhutto regime divested these groups of their power for the sake of its own preservation and continuity. One of the first orders that Bhutto promulgated was to announce land reform. While the inefficacy of this reform has been extensively recorded and confirmed by scholars (for instance, Griffin, Keith and Khan 1979; Herring and Chaudhry 1974; Mahmood Hassan Khan 1975 and 1981; Shoaib Sultan Khan 1980; S. M. Naseem 1981), the fact remains that it constitutes an attempt at reducing the power of landed interests. One year later Bhutto announced the nationalization of certain large-scale industries and froze the assets of big industrialists, confiscated their passports, ordered the arrests of some industrialists which were dramatically orchestrated in the media, and alienated big industrialists completely. Bhutto could exercise arbitrary power against the industrialists because his power remained unchallenged as the wrath of the masses had already been unleashed

against the "robber barons." They thus served as convenient scapegoats for the regime to establish its credentials and legitimacy, and for the state to assert its power unquestionably.

These drastic policy measures were required for the political survival of the state and the system. The state went against ruling class interests to ensure its own survival. After the separation of East Pakistan, the government began to assert itself more forcefully in the absence of any clearly defined dominant class factions. The state began to invest heavily in industry, filling the vacuum created by private sector withdrawal. Private investment had dried up completely by 1971 as a result of the on-going political crisis and the fear of nationalization. By 1974 private investment was reduced to a third of what it was in 1970. It increased very slightly from 1974-77. Despite the increase after 1974, it was still less than half the 1970 value in 1978, showing the mistrust of the private sector. Most prominent industrialists took their investments out of the country to Africa and the U.S.A. (Burki 1980, 118; Noman 1988, 49). While industrial development and growth suffered, the government had succeeded in reducing the economic and political power of the industrial elite. By introducing new labor legislation regarding wages, job security, etc., it had further undercut the influence of the industrialists. Having given a somewhat similar treatment to the agricultural elite and peasants, the civil servants and the white collar workers, the state plunged itself into uncertainty. It was following contradictory and ambivalent policies.

While the Pakistani government (between 1972-77) acted against the immediate interests of the ruling class factions, it did not destroy the roots of their power. By letting the owners retain their shares and ownership, by taking over the management of the industries and employing the same entrepreneurs who had previously run the industries for private companies, by announcing land reform but leaving loopholes in the codification process combined with meager implementation, the government was constantly juxtaposing itself vis-à-vis the dominant class. Having reduced the influence of the industrialists who had accumulated wealth and power unabatedly after the 1950s, the regime turned to "grand solutions" by constructing a steel mill, building a series of nuclear plants (including a plant for reprocessing nuclear fuel), and constructing highways connecting the north and south of the country as well as better roads inside the provinces, etc. (Burki 1980, 163). These projects did not benefit any one particular group; they only served to enhance the power of the state.

Having acted with impunity against the dominant groups, and after reducing the authority of the Planning Commission, the Bhutto regime embarked upon a program of further nationalization introduced earlier. Prior to the 1977 elections it announced the nationalization of some 4,000 flour milling, rice husking and cotton ginning mills. The government brought in its own managers for these rural industries. This time it had assaulted the interests of the small entrepreneurs (Burki 1980, 160-61). Further land reforms were announced in tandem with the agro-based industries' nationalization in 1976. The reactions

to the 1976 nationalizations were mixed and created tension among the propertied classes.

Despite the populist nature of the Bhutto government, the emergence of a mass movement against the Bhutto regime is an important question. What was the class configuration of this movement? Which classes stood to gain? The six-year PPP rule is difficult to categorize; it always evokes extreme responses. Bhutto was either loved or hated by people. There were hardly any feelings of neutrality towards him. In terms of the class configuration, Alavi argues that Bhutto had struck at the roots of bourgeois power. The term encompasses not just the elite, but also the middle- and lower-middle class. Bhutto's nationalization policies surprised his middle-class supporters, who expected him to effectively hit at the roots of the dominant classes and thereby make it possible for them to wield influence. Bhutto had acquired power with the support of the middle class and middle-class aspirants. He raised their hopes but failed to deliver what they expected of him. Instead his policies were reactions, on a short-term basis, to whatever was taking place. He lacked long-term strategy for his grandiose promises. He had estranged people from varied class backgrounds. Therefore, everyone, especially the industrial, commercial, landed, professional, and religious elites had a grudge against his rule, which explains the mass movement. This movement, however, was ideationally couched in Islamic rhetoric, and not in terms of the material dissatisfaction of the propertied classes with the regime.

The Islamic character of the movement can be explained in terms of the long history of repression in Pakistan. In a state where all

forms of protest can be delegitimized by the government, Islamic rhetoric is the only effective weapon of gaining ground against a powerful administration, and criticizing the administration on that basis. Islam is the safest means of protest and criticism. It has the added advantage of attracting large numbers of people as well. Thus the movement against Bhutto could only emerge as a religious movement if it was to fight the all-powerful government.

The Pakistan National Alliance<sup>6</sup> turned the election results into a 'jihad' (holy war) against Bhutto, who was widely criticized for his personal lack of interest in and knowledge of Islam (Waseem 1989, 398). The PNA changed the dispute over electoral victory of some national assembly seats into a fight between good versus evil. Ironically Bhutto's downfall was similar to his rise: he failed to bring about meaningful change in favor of the subordinate classes. He was removed as a symbol of evil by the same classes whose interests he had held up in his election campaign.

Had the government gone too far in its exercise of relative autonomy on behalf of the state? The government had attempted to emerge with absolute power but remained economically dependent upon the dominant classes and foreign capital. What were the policies of the Zia regime that came into being as a result of the class struggle against the Bhutto regime? This, as well as the rise of the new small-scale industrialists, will be discussed in the subsequent chapters.

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<sup>6</sup>A coalition of nine political parties which came together for the purpose of ousting Bhutto out of power.

CHAPTER VIII  
THE RISE OF SMALL-SCALE INDUSTRY:  
A SURREPTITIOUS BY-PRODUCT OF DEVELOPMENT

A major shift took place in the composition of the industrial class in the 1970s. This shift was triggered as much by the green revolution as by Mr. Bhutto's nationalization of banks and financial institutions followed by nationalization of industries. A vacuum was created after the nationalization of large-scale industries, making the entry of small-scale industrialists comparatively easy.

The growth in Small Scale Industries (SSI) between 1970-1977 was around 22 percent according to Hamid (1989, 31). This rate increased slightly more over the next ten years. Small-scale industries grew at a much faster rate than medium- or large-scale industries. The pace of industrial growth was far more rapid in the Punjab than any other province of Pakistan. This chapter asserts that the rise of a new class of entrepreneurs, basically middle-class Punjabi in origin, was possible due to the dialectical relationship between class, state, and economic development.

The appearance of this new industrial class was an unanticipated occurrence, and stands out in sharp contrast to the growth of Large and Medium Scale Industries (LMSI) owners who were cultivated, patronized, and later abandoned by the state. That the phenomenon of the middle-class entrepreneurs was not state sponsored must be underscored. The state in fact was truly disinterested in the

formation and growth of this subclass. Therefore, it neither promoted it, nor provided it incentives. The appearance of this de facto class was the result of a complex interaction between various policy measures and their impact on different sectors of the economy.

#### Consequences of Economic Policies

The rise of SSI was an unintended corollary of economic development policies over the course of a decade and a half. The emergent class of small-scale industrialists was the unexpected result of economic and social policies which were intended, inspired, and initiated for entirely different purposes. These policies were the consequence of pressures from international institutions, different class segments within the country, and the government's interest in structural change under World Bank guidance.

The government was induced to devalue the rupee in 1972 in the aftermath of the Bangladesh crisis, under pressure from the International Monetary Fund which threatened to discontinue aid. Devaluation of the rupee meant that foreign importers could buy Pakistani goods at a lower price than before. This provided an advantage to Pakistani exporters whose products were previously considered overpriced. These exporters became more competitive in the international market.

Previously, exchange rates used to be fixed and were tied to the U.S. dollar. After 1972, the exchange rate was made "floating," i.e., the country set the value of the rupee slightly high which discouraged imports and encouraged exports. This reduced the quantitative incentives (e.g., subsidized imported machinery) for large- and

medium-scale industrialists because LSMI was no longer profitable. Conversely exports became profitable, which was to the advantage of local traders marketing their goods overseas.

In the previous two decades industrialists proposed large projects so they could obtain large loans in local and foreign currencies. They did not expend all the capital thus gained on industry. Very often industry worked below its optimal capacity. After 1972 these incentives no longer provided the industrialists with these advantages due to fears of nationalization; hence, more competitive smaller enterprises could emerge that did not necessarily require large sums of government collateral, thus expediting the growth of small-scale industry.

International institutions impacted SSI with far-reaching results. The World Bank in return for not curtailing ongoing aid projects pressured Pakistan not only to devalue, but also forced scale industrialists and traders with an advantage previously not enjoyed by them. The Export Bonus Scheme had disadvantaged these entrepreneurs vis-à-vis the big industrialists because LSMI could import capital goods and raw materials until the late 1960s at the official exchange rate, while SSI had to pay the local market price (higher than if these items were imported due to protection policies). This system was discouraging to the growth of SSI as it discriminated against them.

SSI was also constrained by the shortage of imported raw materials. After the 1970s' liberalization this situation improved considerably, thereby aiding SSI growth. Furthermore, because of the new exchange rates, imported capital goods no longer enjoyed an edge over raw

materials. This provided an opening to the engineering industry, which was an important subsector of SSI. Additionally, as SSI tended to be export oriented, producing carpets, garments, surgical instruments, and sporting goods, it benefitted more from the devaluation than did LMSI which was primarily producing for a highly protected domestic market.

The nationalization policy of the Bhutto regime broke the big industrialists' monopoly over industrial and financial establishments, providing a tremendous boost to small-scale industrialists. The nationalization of banks made credit accessible to a larger section of investors who were not considered "safe" by the privately run banks. Also the nationalized banks provided credit at comparatively lower interest rates, making the prospect of investment more attractive.

The fear of nationalization (which was directly related to the size of the industrial unit) convinced a large number of textile manufacturers to physically dismantle looms from their mills and set them up again as smaller units of production. This, they thought, would ensure them safety from nationalization. Many new investors, apprehensive about Mr. Bhutto's unpredictable policies, entertained similar fears, thus preferring to invest in SSI. This apprehension aided the rise of SSI in Pakistan.

A large number of former industrialists began investing in trading because it was relatively safe from government interference. Also, they were not only experienced but enjoyed a comparative advantage due to their previous contacts with both foreign sources of capital and business, and with local authorities. It was thus relatively easy

for them to enter the new export business of local products and turn it into a flourishing occupation. Coupled with the mass labor migrations to the Middle East, the phenomenon gave impetus to the export not only of carpets, sports goods, surgical instruments, handicrafts, etc. (Pakistan's traditional exports), but also of garments, canned food, and footwear for markets in the Middle East. To fulfill the domestic demand for plastic products, a large number of enterprises burgeoned. As the people who had gone abroad were from the labor class, their demands for so-called modern-day gadgetry were of a limited nature. They did not expect "sophisticated foreign" standards that the educated classes professed to prefer, therefore they were willing to purchase locally manufactured goods. The comparatively lower expectations contributed to SSI growth.

Labor migration to the Middle East created a shortage of labor within the agricultural sector in Pakistan. The majority of laborers are/were from the PUnjab and NWFP, areas which contribute the major portion of agricultural output. These labor shortages led to increased mechanization of agriculture, causing small foundries for agricultural tools and implements to mushroom. Combined with the Ayub regime's emphasis on agricultural mechanization and water distribution, the installation of water pumps, tube wells, and manufacture of agricultural machinery had already acquired more significance and relevance, giving rise to small-scale agro-based industries.

The labor legislation introduced in 1972 also encouraged the emergence of SSI. This legislation specified the new wage rates, and benefits that labor was to receive from employers. The trade union

movement in Pakistan was becoming vocal and assertive under government encouragement and guidance,<sup>1</sup> prompting a move toward smaller establishments. Establishments are defined as "micro," "small," or "medium" based on the number of workers they employ. If the number of workers is below ten, the unit is considered "small" and consequently different labor and tax legislation applies. Workers at these units could not form unions and demand the same rights as effectively as in large- or medium-scale industries where labor unions are allowed to exist. Labor also did not enjoy job security, insurance benefits, etc. at SSI. For the private sector the small enterprises were more attractive not only because the government could not impose its labor rules there, but also because they had power over their employees. This augmented the growth of small-scale industry, in that, those who possessed capital chose to invest in SSI rather than be vulnerable to government rules and militant labor by investing in LMSI.

Due to the labor legislation of 1972, SSI became labor intensive--totally different from LMSI which had tended to be capital intensive.

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<sup>1</sup>The extent to which the trade unions were successful is debatable. Dr. Irfan at PIDE contends that the movement was coopted by the government and did not introduce meaningful change for the majority of the labor class. The issue is far broader and deeper than can be discussed here. The point I wish to emphasize is that even if the movement eventually was a disappointment because it did not introduce effective change in working conditions, it provided the government a stronger position which it could use at will against the private industrialists. The fact remains that it did not do so, and labor continued to be exploited. However, the position of the employers in LMSI weakened and they in effect avoided investing in large enterprises which are defined by the number of workers employed.

In general we find that SSI developed different specializations. That is, due to its labor intensive nature, it concentrated on products such as textiles (weaving), footwear, furniture, and light engineering while LMSI had concentrated on sugar, cement, fertilizer, petroleum refineries, and industrial chemicals.

As mentioned before, the growth in SSI is calculated to have been around 22 percent per annum during 1969-70 to 1976-77 (Hamid 1989, 31); the textile sector in particular experienced a growth rate of over 26 percent (at the expense of LMSI). The other SSI had growth rates between 16 and 20 percent. While these growth rates are at best speculations, it is what they indicate that is important. They indicate the rise of a new subclass within the industrial sector, who utilized their limited resources efficiently, and emerged as a strong voice within that sector. The impact of their social values on politics was tremendous, especially after the stranglehold of a few families on business was effectively broken under Z. A. Bhutto. It was under these circumstances that Zia ul Haq took over.

#### From Rural Entrepreneurs to Merchants and Industrialists

The green revolution had increased agricultural output enormously, providing producers with substantial surpluses which could be invested elsewhere, e.g., in trading and establishment of industries. How did the green revolution affect agriculture? Mahmud Hassan Khan (1981) contends that this technology benefitted regions where commercialized agriculture already existed. According to his study, the central and eastern regions of the Punjab registered maximum yield increases per

acre. These two regions consist of the districts where industry is most heavily concentrated in the Punjab, namely, Sahiwal, Faisalabad, Multan, Sialkot, Gujranwala, and Lahore.<sup>2</sup> Attock and Vihari are the two exceptions which belong to the eastern region (a region which did not record similar crop increases) and where industry is concentrated. However, these two districts specialize in sheet glass and specialized glass manufacturing (Altaf 1983, 194). Such industries, it must be noted, do not require agricultural raw materials.

Interestingly enough, the central and eastern regions do not have a concentration of large farms. Eighty percent of the farms coming within the medium range are owned by owner-cultivators. Burki calls these owners "rural entrepreneurs" (Stevens, et al. 1976, 310). These entrepreneurs were able to emerge because historically, these particular districts avoided high degrees of land concentration as, for instance, found in Sindh. Additionally, a political vacuum was created when the few big local landlords belonging to the area left to settle in the cities.

The green revolution transformed agriculture into "agro-business." Agriculture was not only more efficiently managed, but new inputs such

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<sup>2</sup>According to a UNIDO study (1985, 7), industry in Pakistan is concentrated in Karachi and seven districts of the Punjab. However, this study does not specify the seven districts.

Also, a World Bank report, Pakistan: Third Small Industries Project (1987, 6), states that: "The majority of small scale industries are concentrated in Punjab and Sindh provinces . . . reflecting population concentrations, raw material sources, availability of infrastructure, access to markets and local entrepreneurship."

as new seed varieties, tube wells, pesticides, and fertilizers were introduced. The government offered farmers credit for the purchase of these inputs, which furthered the process of dissemination of the green revolution. Various agro-based businesses emerged which rented harvesters to farmers; similarly, big companies involved in food processing, for instance, Rafhan Maize Products, initiated projects that bought a farmer's entire stock at a predetermined price besides providing inputs and advice until the time that the crop was harvested.<sup>3</sup> These schemes had encouraging results.

Moreover, co-op credit also became popular in the Punjab for short-term loans. Borrowing from friends for purposes of investment in agriculture or small agro-businesses was utilized. The latter was possible not only because the amount involved was not substantially high, but also because Middle Eastern remittances were available for investment or lending.

Furthermore, some of the former industrialists who had shifted their operations from Pakistan following the nationalizations, began returning home after unsuccessful ventures abroad. Due to their past business and management experience, and more favorable political and economic conditions inside the country under Zia ul Haq, they reinvested their money in industry. Thus the share of private industrial investment in total industrial investments increased from 27.2 percent in 1978 to 89 percent in 1987 (World Bank, Staff Appraisal Report no.7436-Pak 1988, 2).

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<sup>3</sup>Interview, Mr. Moeen Afzal, Joint Secretary at the Pakistan Embassy in Washington, D.C., February 1990. Mr. Afzal explained that

Manpower export to the Middle East generated enormous increases in the incomes of laborers, taking pressure off the government to change the skewed distribution of income. Approximately ten million people, 11 percent of the population, had benefitted directly from the remittances from the Middle East by the mid-1980s. The provincial composition of the migrants, according to a PIDE report, is quite similar to the provincial population breakdown.<sup>4</sup> However, another study reports that 70 percent of the migrants are from the Punjab, particularly the districts of Lahore, Faisalabad, Pindi, Siakot, Gujranwala, and Jhehlum. It should be noted that these are the districts where industry is also concentrated. The second largest share comes from Sindh (14 percent), but that is explained by the presence of Karachi in Sindh--the biggest city and seaport in Pakistan. Interior Sindh has not benefitted from the phenomenon. The NWFP has contributed the next largest share of 12 percent, a figure that is misleading because a substantial number of people who have gone from Karachi are pathans originally from the NWFP. Therefore the number

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these measures were undertaken as part of the 'modernization' effort in Pakistan in the early 1970s.

<sup>4</sup>The parallel between the country's population distribution and labor migration (reported in Ahmed and Amjad 1984, 19) has been calculated by a fallacious method; a small sample from the Punjab was used as a model for the whole of the country, so that the overall situation looked like it does in the Punjab. It may have been a deliberate effort to disguise the real distribution which is a politically sensitive issue. The use of apparently neutral economic models thus amounts to intellectual dishonesty that the state employs people with high academic degrees to perform.

of Pathans as a proportion of the total exceeds 12 percent. Since a major part of the manpower export to the Middle East came from NWFP and Punjab, therefore the people in these two provinces benefitted more than those in Sindh and Baluchistan. This partially explains why the new owners of industry are predominantly Punjabi and why there has been more growth of small-scale industries in Punjab and NWFP. What is important here is that remittances increased substantially by the mid-1980s (\$3.2 billion), the time when small-scale industries began to grow at a fast rate (8.5 percent per year average for the 1980s).

A Pakistan Institute for Development Economics study asserts that the bulk of the Middle East remittances was used to buy agricultural land, build houses, and cover the costs of marriages. Only 7-8 percent of the remittances constituted industrial investment (Amjad 1986, 44). This is a short-sighted explanation because:

1. An increase in consumerism encouraged the growth of small-scale industries in the fields of plastics, cutlery and in light engineering such as agricultural machinery, table and ceiling fans, and construction/building material, such as steel door knobs, nails, implements like saws and hammers, etc.

2. While the Middle East workers did not invest in industry directly, the money they sent to purchase land, etc. remained in the Punjab and was reinvested elsewhere. An examination of small- and micro-scale industries in terms of growth and location connects their rise to greater capital availability to Punjabis.

The newly emergent class of rural entrepreneurs turned industrialists was instrumental in bringing down Mr. Bhutto's government (Kochanek 1983, 216, 218); Duncan 1989, 86, 87; Kardar 1988, 3) when Bhutto nationalized their small-scale rice, cotton and wheat mills. This had two results:

1. Realization regarding identity of interests leading to awareness among the new class of Punjabi industrialists of themselves as a class, and thus the creation of identity.

2. Recognition of its interests as a class by the government, based upon its importance and power. Thus the self-image of this class was reinforced and reflected in government policies.

Before the military takeover of 1977, the newly emergent class of small-scale industrialists, predominantly Punjabi, was not aware of itself as an effectively powerful class. However, it was central to the anti-Bhutto campaign when the latter hit its interests most directly through nationalization of small-scale rice, wheat and cotton mills in 1977. This role was possible because of the organizational links between "mandies" (anglicization of the Urdu term "mandi" meaning produce market), intermediate towns and big cities. These links provided tremendous economic, social and political power to the new class of small- and medium-scale industrialists.

The organization of this class came about not because of any conscious policy initiatives on the part of the state, but because of a combination of economic and traditional practices. Most district towns have, in the past, served as "mandies." Mandies are meeting places for farmers and merchants belonging to different "biradaris"

(integrated communities) from the surrounding areas. The farmers and merchants operating within this system developed vertical and horizontal linkages (Alavi in Mitra, ed. 1990) with one another due to close contacts over an extended period of time. This was possible because some dealers in produce were/are fairly large landowners themselves and in some cases are also owners of rural agro-industries such as cotton ginneries, wheat shelling or rice husking mills. Although it is not necessary that all three categories be vested in one person (and they are extendable to families and biradarries), the significant fact remains that these three categories developed and worked closely, due to the mandies.

These categories not only helped develop links between biradarries along horizontal class lines but also created vertical linkages between producers, merchants, and mill owners. Due to the evolution of mandies and the three categories that conduct business within them, anti-government feelings can spread very fast and effectively if government policies are unfavorable toward any of these businesses. This is exactly what happened when Bhutto decided to give the public sector greater importance at the expense of the agro-based rural industries.

Additionally, the affairs of the mandi merchants are managed by a committee at each mandi; usually these committees try to acquire representation in the local Chambers of Commerce and Industry. The latter exist in most of the intermediate-sized district towns. Thus the right to promote their interests becomes represented at another forum as well. This forum serves to legitimate their right to voice

their demands and politicizes them in the process of bargaining with the government.

#### Emergent Voices from SSI

The Chambers of Commerce and Industry gained institutional importance in the 1980s when other formal channels of representation were closed under Martial Law. They became the major means of articulating demands to the government. In the past, the big industrialists did not rely upon the chambers so often because they had direct personal contacts with the civil bureaucracy with whom they met at exclusive clubs and at private parties and reached mutually beneficial agreements discretely. The new middle-class industrialists lacked similar contacts. Furthermore, with the rise of this new class the entire culture of privilege changed as clubs and other exclusive institutions were no longer viewed with approval.

Additionally, the newly emergent bourgeoisie, while they cultivated personal contacts within the middle-level military and civil personnel, relied more upon their bargaining strength as a group vis-à-vis the government. Since the (previously unimportant) chambers of commerce and industry represented this class as a group, they acquired significance as institutions. As the chambers gained importance, the issue of whose interests they would represent became important in Karachi's multi-ethnic industrial complex.

Karachi, the industrial center of Pakistan, was traditionally dominated by Indian Muslim immigrants until the Punjabis began competing with them. The schism between Punjabi and Mohajir groups

resulted in an intense struggle for leadership of the Pakistan Federated Chambers of Commerce and Industry (PFCCI). Support from biradaris became crucial for election results. The shift in the ethnic composition of the Managing Committee of both the Karachi Chambers of Commerce and Industry (KCCI) and the PFCCI from predominantly Mohajir to predominantly Punjabi members reflects the tensions and struggle for power within the industrial class. The importance of the PFCCI was recognized by the government of Zia ul Haq when he inducted over forty members of the Majlis e Shoora from among the members of the PFCCI in 1981 (Interview, Mahar Alavi, former President of PFCCI and Vice President of KCCI, Karachi, December 1989).<sup>5</sup>

The bureaucracy in Pakistan was not opposed to the new middle-class Punjabi entrants; in fact it saw a potentially strong ally in this subclass. The social origins of some of the military and bureaucratic personnel rested in this class, in which sense they directly represented the interests of this subclass.<sup>6</sup> Gradually we find a new power configuration emerging in the Pakistani class structure by the late 1970s and early 1980s.

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<sup>5</sup>Mr. Alavi supplied Zia with the list of nominees as the President of the PFCCI.

<sup>6</sup>Interview with Dr. Munir at the Civil Services Academy, Lahore, regarding the change in the background of the bureaucracy. His study (unpublished) shows that most of the new Civil Servants are from middle- and lower-class (loosely applied terms) backgrounds. They are the sons of merchants, peasants, and small mill/factory owners. Generally the sons of generals and former civil servants join multinational corporations or private businesses or go abroad. Thus the links between landlords, the civil and military bureaucracy and bourgeois classes have changed. Consequently the elitist character of the

Pakistani politics had been elitist until the late 1960s. The "ordinary," "average" people did not perceive themselves empowered enough to initiate change. The leftist rhetoric of the People's Party and later, the success of the Pakistan National Alliance in the ouster of Bhutto instilled tremendous political consciousness among the rural and urban masses. A direct political role coupled with support from Zia ul Haq gave the new industrial class confidence in itself.

With the change in the economic class background of the military and bureaucracy, their dealings with civil society changed. The widening of the social base of the industrial class also changed the mode of interaction between the bureaucracy and industrialists. As bribery became openly and informally acceptable, it developed into a systematic and institutionalized process that did not require personal contacts. Hence a larger section of the bourgeoisie could utilize it. As Punjab constitutes 57-60 percent of the country's population, a large number of the participants are Punjabi. Even when the formal channels of voicing demands were closed, because Punjabi presence dominates the army and bureaucracy, this ethnic group continued to have ties with the state apparatus through which it procured favors for itself from the state (Interview, Shahid Kardar, Lahore, January 1990).

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bureaucracy has been eroded. This social change was reflected not only in the kind of politics that emerged, reflecting conservative, middle-class values but various state-owned mass information and communication channels like television and radio broadcasts made the change apparent in their programming. These trends had begun under Bhutto in terms of rhetoric; they crystallized under Zia in terms of policy.

### Conclusion

The new class of small-scale industrialists evolved because of the dynamics of development; the state had no conscious direct link with the creation of this subclass. The economic policies introduced by the Ayub, Bhutto and Zia regimes under different circumstances and considerations were not meant to change the character of politics within the country. However, with the emergence of this class, the nature of Pakistani politics underwent transformation. The state was compelled to extend extensive support and concessions to this subclass.

The class of petty industrialists has not only been successful in the promotion of its interests, it has been very assertive in the politics of the country. The downfall of Bhutto and the ascendance of middle-class conservative values in the political arena coincided. The result was Islamization, indicating that the state recognized the prominence of the new middle class. Contrary to the view that Islamization was used by Zia, I contend that this usage was possible because of the rise of the new middle class.

Central to the rise of the thousands of industrialists is class self-definition in terms of consciousness, action and struggle. Awareness of itself as a class was the most important factor in the mobilization of this class. Its success, in conjunction with other classes in removing the Bhutto regime, gave it the confidence to be more assertive and aggressive vis-à-vis the government.

The position of a class depends upon its role in the process of production. The latter determines its importance to the capitalist system. This system has structural dynamics of its own, which go

beyond state action. This explains the emergence of the large section of petty industrialists. The green revolution set in motion dynamics which were not initiated by the state for the creation of a new class of industrialists. This raises the question of class formation and economic development. Hagan Koo (1987, 166) asserts that:

Economic change often leads to a new configuration of the class structure, modifying relationships among social classes. Changing class relations affect the nature of the state and its mode of intervention in the economy. Changes in class and state structure may subsequently result in modification of the ways in which a given economy is integrated into the world economy.

In the context of Pakistan, class/state relations were directly influenced by the structural dynamics of economic development, which also dictates the functioning of international finance institutions.

CHAPTER IX  
INDUSTRIAL POLICY AND THE STATE DURING THE ZIA REGIME  
(1977-1988)

The Zia regime is characterized by the rise of political conservatism coupled with fast economic growth (6.5 percent per annum average). Lacking an industrial base at independence in 1947, Pakistan achieved one of the fastest growth rates until the 1960s, when industrial and financial capital became concentrated in the hands of a reputed 22 families. Industrial growth dwindled during the 1970s following Prime Minister Zulfikar Ali Bhutto's nationalizations. However, during the Zia era the share of private sector investment increased from 19.5 percent in 1977-1978 to 80.0 percent in 1987-1988. The number of industrial establishments increased dramatically from 3,373 to 8,259 showing a 14.5 percent per annum growth. The pace of industrial growth was far more rapid in the Punjab than any other province of Pakistan. Small-scale industries grew at a much faster rate than medium- or large-scale industries. This chapter asserts that conservative politics emerged in Pakistan during the late 1970s and 1980s due to the rise of a new class of entrepreneurs, basically middle-class Punjabi in origin, whose emergence we have discussed in the previous chapter.

State Interests and Development Dynamics

In this section we will examine the character of the state and analyze industrial policy in that context. Here I assert that the

industrialization policy of the Zia regime reflected the state's need for support from the private sector. The Zia government increased the role of the private sector by providing it extensive protection and promising to safeguard its interests. It may be pointed out that the state helped and courted the industrial class as a whole and that there was no inclination to support one sub-sector against another--for example, the small-scale industrialists against the large-scale industrialists. Whoever was willing to invest was encouraged.

What was Zia's agenda? What was his policy? At the individual level of analysis, one may safely say that Zia had no vision of any particular type of economic development or a particular set of policies to promote when he took over (Interview, Burki, Washington, D.C., 1990). This was different from Mr. Bhutto, who had socialist rhetoric and whose policies were clearly in favor of a centralized powerful state dominated by his political party.

#### Political Considerations

When Zia announced Martial Law in July 1977, Pakistan was undergoing a political crisis. The Bhutto regime had tried to alter the relative power position of some of the ruling class segments in a detrimental fashion. In this particular chapter I can only briefly mention how the Bhutto regime effectively reduced the power of the civil bureaucracy with the introduction of institutional reforms (1972); threatened the power of the landed elite with the 1972 land reforms and the unimplemented 1977 land reforms; decreased the power of the industrialists and financiers through nationalizations of key industries

and financial institutions (1972, 1973, and 1977). The Bhutto government had gone too far in its exercise of relative autonomy on behalf of the state. It had attempted to emerge absolute but was economically dependent upon the dominant classes and foreign institutions for capital, and thus the ensuing political crisis took place.

The Zia regime used state power to gather support for itself and to create a stable state. It decided that higher economic growth would make the economy stronger, and broaden the regime's support base, thus generating both state stability and regime continuation. For this purpose it supported the industrial class. To encourage industrial growth, the government allowed the import of capital machinery, and subsidized the Karachi Steel Mill to keep the prices of capital goods artificially low for industrialists. The government also started granting import licenses, simplified sanctioning procedures to make raw material easily obtainable, and re-instituted subsidization policies under special circumstances (such as the cotton crop failure in 1986), thus gaining the support of a wide spectrum of small- and medium-scale industrialists. Although the heavy protection the government provided only created inefficient industries which could not produce at internationally competitive prices,<sup>1</sup> the political gains outweighed

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<sup>1</sup>A. R. Kemal: Report presented at a seminar on "Privatization and Investment" organized by the Federal Ministry of Industries and UNDP in Islamabad in August, 1989. The report stated that protection to Pakistani private sector industries in the 1980s was as high as 365 percent in 44 out of the 90 industries studied. In others the minimum worked out to be 88 percent. This was 50-60 percent higher than the rates of protection in the NICs.

the exploitative aspects. The tendency that became visible was that of a state supporting a wider spectrum of industrialists.

The Zia regime, in order to solve the political crisis, revised and reversed some of the decisions of the Bhutto regime. Indeed that was its *raison d'etre*. For instance, the Planning Commission's power was restored to its pre-Bhutto regime level. Similarly, Zia enhanced the powers of the bureaucracy considerably by putting it in charge of formulating and executing policies. Thus the bureaucracy did what it was familiar with: revert to policies of the 1960s when it was in a similar situation of power.

However, the resemblance of the 1980s with the 1960s in Pakistan was not entirely due to Zia's personal preferences. Structural forces had come together to result in cooperation between class and state. This was different from the Bhutto regime during which a high level of contradiction existed between class interests and state interests.<sup>2</sup> Under Zia, every action of the regime indicated the power of the state. For instance he set up the *Majlis-e-Shoora* (a hand-picked body of peoples' representatives) and later replaced it with a parliament under Prime Minister Junejo. In 1988, as part of a unilateral decision, Zia dissolved the parliament as well. We must note, however, that Zia did not threaten the economic position of the entrenched classes. Politically he sought legitimacy with the ultimate force--coercive

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<sup>2</sup>Cooperation, as Alavi pointed out, does not imply absence of competition. However, it lacks the element of destruction, which is endemic to the idea of contradiction. Contradiction in the present context means the elimination of one actor for the survival of another (Interview, Manchester, 1990).

power of the state. The authority of the state was used to demonstrate his government's political power, while carefully safeguarding the economic interests of the different classes and class factions. The state during the Zia era supported all classes; there was no contradiction between class and state (economic) interests.

### Zia's Industrial Policy

While the Bhutto government emphasized capital goods industrialization, the Zia regime reverted to import substitution of manufactured and intermediate goods. This policy was reminiscent of the 1960s. Despite the grave pressure upon the Zia regime to create conditions conducive to an Export Oriented Industrialization (EOI) strategy, it continued to follow ISI, paying only lip service to EOI. This was largely because the industrial class, incapable of competing in the international market due to its inefficient operations, was unwilling to invest in highly competitive exports industries. Pakistani industrialists were used to protected domestic markets and intended to keep their privileged position intact. The return to ISI policies indicates the state's commitment to support the industrial class.

When the Zia regime assumed power, it was with the understanding that private entrepreneurs would play a leading role in the industrial sector once again. The new regime was cautious, only introducing policies that would promote the confidence of the private industrialists --for instance, the provision of fiscal incentives. It gave back the nationalized SSIs to their owners as a demonstration of its support of the capitalist class. Once Zia had consolidated his power, he

introduced import liberalization in 1980, which was conducive to SSI growth as it improved raw material and capital goods availability without introducing foreign competition. Similarly, the government simplified sanctioning procedures, and incorporated businessmen into the policy and planning process.

The most important reform of the regime was to make the rupee "floating." In the past the exchange rate had been fixed with the U.S. dollar; Pakistan's higher rate of inflation, compared to the U.S. and some of its other trading partners, eroded its industries' competitiveness. Therefore, after 1982, when the rupee was no longer tied to the U.S. dollar, its real value enabled the industrialists to sell their products abroad, and procure profits reflecting the actual value of their merchandise.

As a result of such government initiatives, the private sector recovered very swiftly, and aided by the Middle-Eastern remittances, it grew at 10 percent per annum. Medium- and small-scale industries grew at a very fast rate between 1978 and 1985 (Noman 1988, 173). Large-scale industries also grew at an impressive 11 percent per annum during the first five years of the Zia regime. Their growth, however, is directly attributed to public sector finance and investment.

The Zia regime was forced to continue the heavy public sector investments initiated by the previous regime. It concentrated on completing the large-scale on-going industrial projects to retrieve the heavy investment already made in them. Additionally, labor employed at these large-scale enterprises resisted moves to hand the enterprises over to the private sector. Coincidentally, the bureaucrats

and ex-military personnel in charge of running these operations were also against privatization of these industries.

In fact, to placate the personnel of these public sector enterprises, the government decentralized their management structure. Consequently the Board of Industrial Management was abolished, and boards of directors were established at the company level; ostensibly, individual units were expected to perform more efficiently. The Experts Advisory Cell was established to monitor and evaluate the performance of public sector enterprises (Hamid 1989, 39-41).

While the structure of public sector management was changed, no new investments were made, which contributed to the quick completion of several projects. When the government stopped investing further in this sector, LSI growth rates slowed down as these depended almost entirely upon government finance. Private financing in this sector was not forthcoming, not only because of political uncertainties, but also because increased production capacity implied exploring outside markets and producing competitively. Thus LMSI growth rates fell to 7 percent in the period 1983-88 and did not cross that limit despite many government overtures to the contrary (Ibid., 39).

In many ways the industrialization experience was similar to the 1960s, except that industrial sector growth was more diverse than under Ayub Khan. Under Zia, although there were speculations ranging from domination by the same families (Kardar 1985) to the emergence of over 300 families,<sup>3</sup> the big entrepreneurs remained cautious about new

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<sup>3</sup>This information was divulged by a middle-level bank official during an interview in Lahore (December 1989) who requested anonymity.

investment. However, the ownership base has certainly expanded, even though all the causes for its fast expansion are not direct outcomes of official policy.

The growth of a large irregular sector, which is partly outside government control, and partially maintained through governmental assent, has become a fairly widespread phenomenon. A good example is the mushrooming of "Bara Markets" in the country, large markets of smuggled consumer goods, that operate with tacit government approval. Simultaneously, the drug business has also introduced huge amounts of capital into the market. According to Noman (1988, 165-66):

The narcotics trade brings in an estimated \$3 billion annually, which may explain why the government condones, if not actively participates in, the trade. Such illicit flows have led to a rapid growth in the black economy, which public sector financial institutions have attempted to accommodate by issuing bonds, which permit illegally acquired money to become legitimate.<sup>4</sup>

Drugs have not been the only source of illegal money, though decidedly they have been among the major sources of illegal money. According to the Seventh Five-Year Plan (1988, 41), money has also been obtained through "tax evasion, corruption, and the smuggling of arms . . .". The government allowed these activities to persist, ascribing the cumulative effect to the growth of medium- and small-scale industries; whereas the dubious private sector uses the latter to legitimate such illegal wealth, not generate it. However, at this point we do not

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<sup>4</sup>These "facts" are based on speculative estimates published in the Sunday Times, London, March 31, 1985, and in the Economist, London, April 10, 1985.

have any concrete data that will effectively demonstrate the extent to which MSSSI has been used by particular groups to "launder" (i.e., legitimate) their black money and the limit to which these industries have genuinely been growing and contributing to the national economy. A comparison of the Zia and Bhutto years will point out that despite the similarity of bureaucratic-military management styles, the distribution of gains was comparatively more spread out under Zia. The state, by not interfering with the direction of change was tacitly giving its blessing to the generation of illegal wealth--an irony because these were activities formally forbidden by the state itself, hence declared illegal. The state was extending special favors by ignoring the prohibited activities.

#### The State Vis-à-Vis the Private Sector

The state during the Zia period had a dual role. It was simultaneously controlling as well as appeasing the private sector. In the context of industrial policy, the government denationalized most of the nationalized industries. As discussed earlier, these included the 4,000 rice-husking, cotton-ginning, and flour-milling industries, which were returned to their owners. On the other hand the terms of denationalization of big industries (taken over in 1972) created tension and confrontation between government and big businessmen. The government expected the former owners to buy back the nationalized industries with the losses accumulated after nationalization. Businessmen felt particularly resentful when the government insisted that they retain all the workers and managers employed by

the government for running these enterprises (Hamid 1989, 34). However, the government introduced a more liberalized trade policy to create a positive environment favorable to the industrialists. The Fifth Five-Year Plan (1978-1983) stated that the government was going to restore the prominent position of the private sector by shifting its previous reliance from public to the private sector. Due to such assurances, industrial class segments, despite ongoing tensions with the government, felt secure under Zia ul Haq.

The private sector demanded heavy protection for wherever it invested. Generally it invested in risk-free ventures such as real estate and construction ventures. This was not conducive to the growth of the economy, making the state undertake a major portion of industrial investment, requiring the private sector to invest only 10 percent to 20 percent as part of debt/equity ratios.

#### The Politics of Islamization

Zia's conservative policies were connected with the ascendance of the middle class in the political arena. State institutions were crucial for the promotion of small-scale industries, just as the class of petty industrialists was central to the process of Islamization of state institutions. The anti-Bhutto PNA movement was successful because of its slogan "Nizam e Mustafa," meaning that the opposition wanted to introduce the prophet Muhammad's system. Utilizing this theme to its advantage, the regime not only provided itself with legitimacy by talking about Islamizing the entire political and economic system, but simultaneously increased the power of the state to intervene in spheres that were previously considered private.

Mohammad Waseem (1989, 399) divides Zia's Islamization program into three categories: (1) general Islamization of morals, education, and science; (2) punitive measures; and (3) reconstruction of the economic system. Although the first two categories directly impacted the politics of the country, e.g., the regime's advocacy of morality in politics, and introduction of the Haddood Ordinance (punitive measures) attempted to restrict the rights of women in the legal and political spheres<sup>5</sup> leading to widespread protests and demonstrations, for purposes of analyzing industrial policy we will concentrate on the reconstruction of the economic system. Economic reform, the most controversial and widely debated, created confusion both nationally and internationally. It was specifically concerned with banking and agricultural taxation.

Under Ayub Khan, academic institutions had been employed in policy formulation, although marginally, but under Zia ul Haq, they were ignored. The formulation and implementation of economic reform were carried out purely by the state bureaucracy which did not even pretend to be interested in any input from any other agency, depicting state power clearly. Academic institutions lacked political clout as Zia, unlike Ayub, did not need economic theory emanating from universities to justify his policies. Economic theory was needed by the developmentalist state, whereas Zia was in need of an Islamic philosophy and Islamic theory of economics to justify and prolong his rule. He

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<sup>5</sup>The Haddood ordinance also introduced severe punishments such as amputation for theft, stoning to death for adultery, and public flogging for drug or alcohol intake.

therefore attempted to rely upon the modernist element within religious clergy to provide new guidelines. This was also in line with what the Saudi Arabian press terms as the "Islamic movement" in Pakistan (Khalid 1985, 271).

The regime claimed to be introducing Islamic economics but lacking clear-cut guidelines, it contended that Islamic economics was similar to welfare economics, rooted in Keynesian theory which advocates state intervention in the market. Ghulam Ishaq Khan, then the finance minister, argued in favor of state intervention for alleviation of poverty and unemployment. He pointed out that Pakistan, after blundering through the capitalist system, with its pattern of economic depression, had arrived at a conclusion similar to the Keynesians (Waseem 1989, 400). By correlating Islamic and Keynesian economics, the finance minister did not have to answer questions about the newly-coined idea of Islamic economics.

As mentioned before, the government targeted two major areas: banking and agricultural revenues. Islamization policies impacted banking in particular--a sphere where private investors have control over their own investments. The Zia regime refused to denationalize financial institutions on the grounds that it was going to 'Islamize' them first by eliminating interest--usury. Under the Ayub regime financial and industrial capital had merged to create the much-publicized concentration of wealth among 22 families. The Zia regime, by refusing to denationalize banks, retained monopoly control over domestic banks and thus sources of funding for capital investment. It announced a system of profit and loss sharing, and financial

institutions such as the Investment Corporation of Pakistan (ICP) could no longer charge interest on loans; instead its clients were to be its partners. As the rate of profit was "fixed" in advance, this measure was criticized as amounting to a change in nomenclature (Mohammad Waseem 1989, 399).

Zakat, a religious tax amounting to 2.5 percent of savings, was imposed on all savings accounts. A Zakat Fund was established at each village/locality which fell under Provincial Zakat Councils, headed by a High Court judge. The Provincial Zakat Councils were to be monitored by the Central Zakat Council (Ibid., 399). This was, ostensibly, the state's attempt to increase its revenues, but clearly it was aimed at winning the approval of the newly emergent middle class which emulated the "ashrafiya" (decent, upright people literally--historically in the context of the subcontinent, Indian Muslim families with long-standing names and reputations), not because of its Islamic values, but because upholding such values refers to a certain class status.<sup>6</sup> More importantly, the state was interfering in areas that were considered to constitute the 'private sphere' before, and made them public. This augmented the power of the state to intervene in private lives and exercise increased control.

The politics of Islamization was obvious--the state was expanding its authority into other spheres under the rubric of religion. These

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<sup>6</sup>Huma Ahmed Ghosh contends that this is a major means of identity assertion among Indian Muslims.

expansionist tendencies emanated not only from the strong nature of the state, but also because the state received support and approval from the newly emergent bourgeoisie to pursue such policies. The state strengthened itself against various class constellations by zealously following Islamization, a policy process that pleased the subordinate classes.

#### The State and Small-Scale Industries

When the importance of the newly emergent industrialists was recognized, the state initiated a number of programs designed to help them. It encouraged the growth of small-scale industry by giving easy loans, establishing industrial estates, and attempting to attract remittances from the Middle East into these projects through deregulation, industrial licenses, etc., in accordance with World Bank advice.

Besides these measures, two important rural works programs, namely, village electrification program and the construction of farm-to-market roads, were begun in 1978-1989. Between 1978 and 1988 half the villages that presently have electricity were electrified. The other half had received electricity over a 30-year period (Seventh Five-Year Plan of Pakistan 1989, 16). This program made the emergence of thousands of micro-level industries in the rural areas, particularly in the Punjab, possible.

In 1979-1989 the agricultural sector was allotted funds for the construction of farm-to-market roads. The Union Councils at the village level and District Councils were made responsible for coordinating this program over a five-year period. Each district was

to plan out 125 miles of roads connecting the villages to the district headquarters. This program was introduced in the Punjab before being tried elsewhere.

The combination of electrification and the new network of farm-to-market roads not only helped in the development of rural industries in the Punjab, it also created centers of support for both the government and the state. While the Union and District Councils epitomized the government, the physical presence of roads and electricity served as a reminder of the state's power on the one hand, and its commitment to the people in general and the agricultural and industrial sectors in particular on the other hand.

#### Limitations of the Regime

The state under Zia was powerful and dominating. It had expansionist tendencies. But these were kept in check by different classes. The Zia regime recognized this and operated within the parameters drawn by the lessons from the previous regime's experiences. Thus, it vociferously advocated a policy emphasizing export-oriented industrialization. In actuality, this goal remained unachieved.

Pakistan's Seventh Five-Year Plan (1988-1993) states:

The development of export oriented and basic engineering industries was less than adequate. Nor did industrial investment move towards the less industrialized regions. Export diversification in terms of both commodities and markets remained an elusive goal. Especially in manufacturing, despite incentives and support from the state, the sector continued to suffer from a lack of sufficient export orientation. (p. 64)

Why did this failure occur? The answer lies in the imperatives imposed upon the state by industrial and commercial class interests. These

classes were insulated from pressures of international competition because of the regime's and the state's dependency upon them to generate surplus. Furthermore, the high rates of protection, the security of the domestic market, and the absence of domestic and international pressure to improve the quality of inputs and outputs discouraged the pursuit of EOI. The continued existence of these conditions also prove the private sector's strong bargaining position vis-à-vis the state and the international finance institutions.

#### The Question of Private Versus Public Sector

The demarcation between private and public sector is extremely vague, and is problematic from an analytical point of view. Not only does the government finance the public sector, it also provides a sizable portion of the private sector investment in the form of long-term loans, short-term loans, and loans in foreign currencies. Aside from these, equity/debt ratios are tilted heavily in favor of the private entrepreneur who seldom invests more than 10 to 15 percent of the total investment. Aside from loans, over-invoicing and showing over-valued collateral is a frequent practice, so that in effect the government funds the establishment of most industrial setups. The difference is in ownership, not in the source of capital, for in both cases it is massive state investment that is responsible for the creation of new enterprises. The performance of the private and public sectors, however, is quite different from one another.

Public sector enterprises, specifically the ones created in the wake of the 1972 nationalizations, were primarily seen as sources of

patronage by the Bhutto government (Interview, Kardar, December 1989). Political patronage included the creation of jobs as well as provision of consumer goods at concessional rates. A large number of senior civil servants were employed as managers and directors. Extensive overstaffing contributed substantially to the losses incurred by these enterprises.

The performance of these enterprises is widely debated. They have been charged with being inefficient and corrupt. Generally the criterion for their evaluation is economic profitability, and in that sense they compare badly with the private sector. However, as Kardar (Interview, 1989) points out, their essential function was not profitability but political patronage. We must also consider that these enterprises are in areas where the private sector was unwilling to invest, for example, heavy and light engineering, and chemicals. Additionally, while these enterprises are provided with subsidized inputs, they also price their outputs at concessional rates (Interview, Kardar, December, 1989). Thus immediate monetary profitability was overlooked by the state for the sake of: (1) Continuation of the status quo, i.e., avoiding antagonizing the bureaucracy by handing the units back to the private sector; (2) avoiding labor unrest, as there was strong resistance from labor in the public sector to work for the private sector; (3) providing capital and intermediate goods at concessional rates to industrialists.

The mediatory role of the state and class/state tensions can be seen in the support expended by the Zia regime to the clashing

interests of both the bureaucracy and the private sector. For instance, the campaign to malign the State Owned Enterprises (SOEs) came from the government--the government itself made criticisms on the basis of comparisons with the profit-making private sector enterprises--and at the same time the government refused to denationalize the SOEs due to the interests of the bureaucracy.<sup>7</sup> Similarly, state policies reflected the pressures emanating from the public and private sectors in the area of labor as well. The government assisted the private sector in making higher profits by allowing contract labor in privately owned SSI but disallowed it in the public sector. Thus the conditions under which production took place were defined differently for both sectors. In the first case the minimum wage laws became ineffective and labor unions impossible to form. A large irregular labor sector was created with no ability to protect its rights. The private sector and not the government was viewed as the direct villain by labor. In the second case, labor under the public sector remained strong because it could invoke labor legislation and demand judicial redress; they had better working conditions and, most important, they enjoyed job security. This created a positive image of the state. The managers in the SOEs complained about overstaffing and inefficient labor but the state did not allow them to change the situation to their wishes. The state thus played an ambivalent role vis-à-vis the public sector and the private sector.

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<sup>7</sup>There were three exceptions, but they can be overlooked as we are concerned with the general trends.

### Pakistan: Growth Through "Adjustment"

This section will focus on the Zia government's attempt to restructure its industrial strategy in accordance with the Middle East markets' demands and World Bank advice in the context of the world-economy.

By the late 1970s the Pakistani state was faced with financial difficulties. It needed resources to ensure the viability of its economy. Economic growth rates had dropped during the 1970s (3.7 percent average) due to bad weather conditions, international and economic recession, unexpectedly high oil price hikes, and wrong policy choices. Pakistan had to depend upon increased borrowing. The World Bank and its affiliate organizations were seen as major sources of funding. Thus Pakistan improved its relations with these organizations and after receiving Structural Adjustment Loans (SALs) from the World Bank, its economy registered increased growth rates in the 1980s (6.5 percent average compared to 3.5 percent during 1971-1977).

It is significant that Zia ul Haq's policies acquired a definite direction after the spring of 1979, coinciding with Z. A. Bhutto's execution. Z. A. Bhutto's execution in April 1979 convinced the world as well as the Pakistani private sector that Zia intended to retain power. Zia indicated clearly that he would not follow policies contrary to agricultural and industrial interests. He promised an increased role for the private sector and expressed willingness to follow Bank "advice." Private investment thus increased, while Pakistan's relationship with the World Bank and other leading institutions also improved. Between 1980 and 1984 the Bank committed

37 project credits--as many as it had in the whole decade of the 1960s or the 1970s (World Bank Report No. 6048, 1986, 21).

Closer ties and identification with the conservative Gulf monarchies, initiated by Z. A. Bhutto, cooled off when Zia executed Bhutto. However, they improved following Khomeini's militant revolution in Iran and the Soviet invasion of Afghanistan. The Iranian Revolution was a threat to the stability of the Arab regimes; in fact there was a serious attempt at ousting the Saudi monarchy in 1979. Pakistani troops played a crucial role in shooting and capturing the "renegades." The Afghan invasion appeared to be a direct threat to Pakistan's own boundaries and thus it needed all possible assistance. The Middle Eastern monarchies and the U.S. were forthcoming with such assistance.

After the mid-1970s there were large-scale labor migrations (skilled, semi-skilled as well as unskilled) to the Middle East from the Punjab and NWFP. We have already discussed the effect of their remittances on industrial investment and the increase in consumerism. Here, the emphasis is on the emergence of certain types of industries that had markets in the Middle East. For instance, the demand for traditional clothes, footwear and food was substantial enough for garment factories, footwear factories and food processing plants to emerge throughout the industrial areas in Pakistan.

The decision to aim at the Middle Eastern markets was also triggered by the Zia government's close economic and military ties with the Gulf countries. Pakistan was able to obtain more loans from the latter for investment purposes. The Gulf governments allowed

Pakistani imports into their countries under special terms. The Pakistani state became increasingly indebted. Eighty-eight percent of its incoming loans had to go back as repayment of the old ones (Kardar 1989, 9). In return Zia stationed three army divisions in Saudi Arabia and the Gulf states of Kuwait, Oman and Qatar. Thus Pakistan's dependency on foreign capital increased tremendously under the Zia regime, which needed foreign capital to ensure a stable economy and government for itself.

Middle Eastern funds were also utilized for development purposes. The Kuwait Fund gave money to the government to fund the farm-to-market road project initiated in 1980 in the Punjab. The Asian Development Bank (ADB) also provided assistance for this program. Similarly, the United States Agency for International Development (US-AID) drafted a Rural Resources Management Project for the construction of paved and kutchra (unpaved/gravel) roads (Economic Survey 1987-88, 164-65). This project also helped farmers increase their yields through better resource management such as optimal utilization of irrigation water.

The big industrial units created between 1971 and 1977 were not labor intensive. They were functioning at a loss if compared to world market prices. Zia's government, to procure further loans from the Bank, was under pressure to show improved economic growth. It announced that to encourage growth it would move towards a more market-oriented economy, deregulate exchange rates and liberalize trade. It thus allowed the import of capital machinery, besides subsidizing the Karachi Steel Mill to keep prices of capital goods unusually low for domestic markets.

The World Bank gave Pakistan three sets of loans specifically for small-scale industries. The first loan was received in 1982, after it was approved in April 1981. This was important because the number of small-scale industries had escalated considerably. Presently, there are over 100,000 SSIs in Pakistan. Most of the projects financed by SSI loan schemes were located in the Punjab (62 percent) and Sindh (31 percent). The NWFP (5 percent) and Baluchistan (2 percent) received much smaller shares (World Bank Staff Appraisal Report 1987, 10).

The provincial Punjab government introduced a rural industrialization program for intermediate towns in accordance with the concept of developing mandies and mini-industrial estates. Investment in agro-based small and rural industries between 1983 and 1988 was almost twice the targeted amount (Seventh Five-Year Plan 1989, 180). Loans for such schemes were sanctioned under the condition of banking reforms in Pakistan under World Bank supervision. Such supervision included reformulation of domestic banks' procedures regarding loan approvals and loan recovery, and increased accountability to the World Bank. These measures could be termed reasonable advice, since local banks were using loans for political leverage and as sources of bribes. However, the Bank intervened in the banking system in a direct and deep way. Not only did it set up programs for training bank employees regarding scanning of projects under the supervision of Bank experts but it imposed structural changes in the powers and positions of the different financial institutions, ranging from the nationalized commercial banks to the development finance institutions to the government-sponsored PICIC and PIDC (World Bank Report 1988, xi).

This direct interference depicts clearly the authoritative role of the Bank vis-à-vis the Pakistani state. The Bank invaded the state's sphere of action with confidence and impunity, making the state's autonomy over its own apparatuses questionable.

While the industrial class was relatively insulated from the direct pressures of the Bank and continued to set up ISI consumer-based industries, the state had to voice Bank-dictated policies as its preference. It was aware that the private sector was unwilling to invest in the latter kind of strategy; however, to placate the Bank and ensure continued lending, Pakistan stressed EOI. There was a shift in government fiscal and monetary policies. They were now shaped in the light of World Bank logic, which was centered around granting greater importance to the private sector.

#### Theoretical Conclusions

This section will discuss two interrelated themes: the nature and role of the Pakistani state, and the emergence of a new class of petty industrialists in the context of development. The imposition of martial law in Pakistan in July, 1977, was a formal declaration of political and economic crisis. It also signalled a change in the nature of the state. Pakistan was transformed from a populist state to a Bonapartist state.

Martial law, it is generally believed, indicates the failure of a political system--and implies formation of a strong government in the absence of consensus among the ruling classes. In the context of Pakistan martial law served to indicate the exact opposite, i.e.,

it represented not the absence but the presence of consensus among the dominant classes.

We must note the distinction between the holder of political power and the use of political power. The differentiation makes it possible for political regimes to change without any changes in the nature of the state. This is so because the usage of political power depends upon structural phenomena, sometimes outside the control of those who rule. To be specific, the nature of bureaucracy and character of state institutions impact the formulation and implementation of government policies. Similarly, class struggle impacts policy formulation and implementation. Therefore, if there are no significant changes in state bureaucracies and the nature of class struggle, the nature of the state will remain unaltered, despite a change in government.

The circumstances under which Zia ul Haq took over indicate the formation of a Bonapartist state. Bonapartism usually emerges in the wake of chaotic events which contain elements of unpredictability and threaten to disrupt existing conditions. The ruling class relinquishes its political power in exchange for protection against social and economic change. Peripheral states are especially prone to Bonapartism as political and economic unpredictability encourages the dominant classes to support dictatorial regimes for ensuring the status quo.

The Pakistan experience is best explained by the underlying logic of Bonapartism. The transition from a civilian to a military regime in 1977, and later, in 1988, the reversion to a civilian regime, are but the expected outcomes of class action for self-preservation and

self-perpetuation. General Zia and Ms. Bhutto both promised denationalization, support and protection for private investment, an increased defense budget, and a greater role for the propertied classes on the political scene. Thus there is continuity in the nature and role of the state. This brings us to the question of class and its relationship with the state. The continuity in the nature of the state proves the overall harmony of state and class interests. They complement one another. The Zia regime's existence and duration were possible because essentially the state continued to be Bonapartist.

With regard to the industrial class, the relationship was that of strength in different areas for both class and state. On the one hand the industrialists were dependent upon the state for maintenance of the conditions of production; on the other hand the state's autonomy was limited by its need for private sector support and need for foreign capital flows. By extending favorable treatment to the private sector, the state displayed its strength as well as its weakness. The relationship of the industrialist class to the Pakistani state encapsulates the paradoxical and interdependent nature of their interests. This may be summarized as follows:

- The state is the guarantor of the relations and conditions of production for the industrial class. This can be contrasted with the state's need to ensure perpetuation of the status quo and, therefore, its dependence upon the industrial class to continue the process of production.

-- The state can exercise authority and control over the private sector because it provides investment capital. On the other hand, the private sector operates from a position of strength because it is a direct participant in the process of production. Thus it can demand heavy protection, deregulation and simplification of sanctioning procedures--demands which cut state authority.

During Zia's eleven years of power, both the state and the industrial class needed one another. There was interdependence and therefore close cooperation between the industrial class and the state, both of whom supported one another. Industrial policy was guided by this basic rule. The state was promoting the private sector and thus private investment, reduced to a trickle by the late 1970s, grew at 24.1 percent per annum between 1979 and 1988, indicating collaboration between class and state.

However, friction continued to be intrinsic to the relationship. This was because the rise in investment did not follow the priorities stipulated in the Sixth Five-Year Plan or the Industrial Policy announced later which emphasized an export orientation for LMSI. This explains the relative strength and weakness of class and state against one another.

There exist cooperation and competition within the industrial class. It would be incorrect to assume that industrialists act as a cohesive class. In fact, it consists of different factions based on different criteria ranging from size and location of their

industries, to the type of goods they produce (i.e., whether they are for domestic markets or export), whether they are consumer items or intermediate goods, etc. Thus industrial class interests are not always uniform.

The friction within the industrial class lies not only in the various sub-sectors of industry, but also in the scale they represent. The owners of LMSI were the previously large industrialists, belonging to the dominant classes, who assumed a low posture under the Bhutto regime and remained cautious under the Zia regime. The owners of SSI, on the other hand, were representative of the subordinate classes and assumed an entirely different posture towards the Bhutto regime. This class had moved to safeguard its interests en masse through institutions like the Chambers of Commerce and Industry and through social and political action rather than through individual contacts with key government personnel. This constitutes the first direct indication of a radical shift in the manner politics was conducted within the country. Thus the politics of the subordinate classes came to the forefront as evidenced from the Islamization policies and neoconservative stance of the Zia government in state politics.

International institutions advanced policies that gave rise to conditions underlying the emergence of the new petty industrialists. The extent of their direct interest in promoting this class is yet to be determined. Certainly these institutions did not aim at impacting political trends unless these were opposed to these institutions' broad ideological orientation. However, as economic conditions underlie political movements, the role of these institutions becomes problematic.

They were attempting to preserve the status quo in service of the larger capitalist logic, not instigate change in the political leitmotif of the country, which was of no interest to them. Thus, the international institutions did not promote Islamization as a state policy in economic matters, however, their economic "advice" was crucial to its appearance as an uncontested issue in the public arena.

The interplay of class, state, international institutions, and development dynamics colored the Zia regime's policies. The relative power positions of various class segments vis-à-vis each other and the state can be observed most explicitly during the Zia years. The transformations that had started during the 1950s made a full circle during the Zia years with the reintroduction of Islam in politics, and the dependence of state and class interests upon religious sanction.

CHAPTER X  
CONCLUSION

This dissertation reexamines politics in Pakistan by analyzing Pakistan's industrial policy from a political economy standpoint. By problematizing policies that are not considered "political" in Pakistan we introduce into the political arena what has been kept "safe" from politicization. An examination of economic policies without political overtones and undertones is to present a partial picture. Such pictures are constantly created in Pakistan. This dissertation is questioning that fundamental premise. In Pakistan the "reality" of industrial policy lies in economic theory. The economic aspect is best known; it is used to manage, articulate, and perpetuate certain conditions to maintain the status quo. State theory and class analyses help examine the nature of social formations that underlie changes in the socio-political arena that impact economic policies.

State and class theories are much more than mere methodology. They augment the Marxian notion of domination through power relations. The relationship between politics and economics is based on power. Who gets what and why are questions that cannot be raised without such an underlying notion. Therefore, the economic becomes political, with the basis of politics in power relations at the inter- and intra-class levels.

This dissertation has relied upon the neo-Marxist conception of the state, and basically considers the state in two different

co-existent roles: first, as the arena for class struggle, and second, as the entity which seeks to protect dominant class interests. It is not an independent third actor, towering over society; in fact it is constituted by various apparatuses and is operating in a world-economy with other states at various levels of development in the context of the core and periphery.

Such a conception of the state encompasses three levels of analyses, namely, local, national, and global. Socio-economic issues in their ideological and historical contexts can be grasped in their complexity with the help of state theory that considers the analysis of class at the three levels essential to its understanding of politics at any given time.

This dissertation also provides an account and explanation of a general failure of policy and strategy. It attributes the failure directly to the political process. Further, it demonstrates that economic policy measures are not the sole agents of change just as class and state are not the sole agents of change. The process is far more complex; policy and its outcomes impact and are impacted by class, state, and economic development itself. I contend that class, state, and economic development, in juxtaposition to one another, are the chief sources of change and transformation. While distribution of wealth is the issue at heart, it is the interaction between these three "agents" that provides an explanation of the general failure. Thus in Pakistan industrial development has been a disappointment because of the way in which these three variables have interacted.

The discussion that follows elaborates the impact on politics of class, state, and economic development within the parameters of the world-economy.

### Classes in Pakistan

How do classes interact with one another? This dissertation proves that they are not unidimensional; they interact differently at different times as they operate in fluid phenomena. Thus to study them we have to divide them according to different criteria such as production relations, market relations, and income categories. Such flexibility helps in understanding the relevance of class formation.

The mode of analysis adopted in this dissertation also answers a very important issue: the question of ethnicity. In an increasingly strife-torn region where ethnicity is seen to be the basic cause of violence, why is it that this dissertation ignores it after proving that industry has been dominated by the Mohajirs during the first twenty years of Pakistan and by the Punjabis after that? Further, if the kind of class analyses that this dissertation applies in its examination is true of divisions in Pakistani society, why is there no cohesive class action? Instead, we see rising ethnic and religious friction and intolerance that appear to constitute the reality of daily life in Pakistan. The answer lies not so much in discarding the criterion of ethnicity, as in the degree of importance afforded to it in this dissertation. While tracing the rise of newly emerged middle-level industrialists, I emphasize the fact that they are predominantly Punjabi with consequent industrial concentration in the

Punjab over the last twenty years. However, what is important is the fact that underlying this phenomenon are several factors which have largely to do with the side effects of economic policies that were not aimed at the creation of this new class on the basis of ethnicity.<sup>1</sup>

This dissertation ascribes the rise of ethnic minorities as well as majorities to reasons that do not lie in the consciousness or even awareness of separate linguistic/racial identity, but to economic interests. In that sense ethnic identity becomes secondary to other motives that underlie strife and conflict. This is not to deny that ethnic awareness does not exist, but to assert that this reality emerges as per convenience. When economic interests are served by such a division of society, these factors come to the forefront.

Furthermore, ethnicity is only one criterion among many others according to which various class factions come together to safeguard their economic interests. There have been different modes of articulating self-interest among different class factions and at times ethnicity provides the best platform around which to rally and gather support from various industrialists. People relate to ethnicity, especially when it serves to further their economic interests against the dominant classes, to attain the same privileges as the dominant class factions.

However, ethnicity is not the chief means of unity among classes; there are other levels and groupings among classes that are made

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<sup>1</sup>As Punjabis constitute 58 percent of the population, they are bound to dominate the various vocations due to their larger numbers.

possible at different times in accordance to the need and context of the circumstances. For instance, the industrial class can be divided according to exporters and importers, according to owners of textiles and owners of paper mills and sugar mills. Similarly there is a difference of interest between small-scale industrialists and large-scale industrialists just as there is a difference among the producers of consumer goods and intermediate goods. Thus, contending class factions form and re-form in accordance with their perceived economic interests.

The question arises why, if economic factors are so important and decisive, are classes and class factions so divided? The answer lies in the fact that class lines, whether between different classes, or within the same class, do not crystallize permanently as class interests are in a constant state of flux. Public policies affect classes in different ways continuously. Accordingly class factions constantly change their allegiances vis-à-vis one another. There is never enough time for these to congeal and result in fixedly cohesive class action.

While we cannot deny the existence of separatist ethnicity-based movements in Pakistan, we have to remember that at their base lies unequal economic access. In the case of the former East Pakistan the economic exploitation of that region was constantly pointed out and emphasized.<sup>2</sup> Similarly, in Sindh since the early 1980s the adverse

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<sup>2</sup>A Bengali member of parliament first raised the question of unequal economic treatment meted out to the former East Pakistan in comparison to the West Pakistanis in the National Assembly and demanded that it be corrected (Altaf 1983, 37).

economic status of Sindhis is compared to the non-Sindhi population of Karachi to intensify Sindhi nationalism and separatism. This does not mean to imply that a category "Sindhi" does not exist, but that this category becomes problematic only when it is economically frustrated. That is when its self-awareness intensifies. Thus we may conclude that economic interests lie at the base of ethnic movements, and are decisive in determining the intensity of these movements vis-à-vis other classes and the state. Situating its analysis in the economic base, this dissertation asserts the supremacy of economic interests rather than cultural and ideological factors. In fact, it asserts that the latter are largely subservient to economic factors as a means for explaining class action.

Conflict and competition between class factions, and their conflicting influence upon the various regimes determines policy and politics. An examination of the relative power of each class under the various regimes helps us understand politics more clearly. During the 1950s a weak state needed an industrial class and proceeded to create one with support from the bureaucracy. The bureaucracy was supportive not only because it perceived industrialization as an important political and economic project, but also because the creation of this new class enhanced its own power position in more than one way. An industrial class not only put the bureaucracy in charge of industrial licensing, customs duties, taxation, etc. but also created a competitor for the landed classes, with whom the bureaucracy had ideational differences. The state claimed to be promoting all sections of the industrial class, but the results indicate a collaborative

relationship between the state and big industrialists who could be maneuvered more easily due to their narrow class base. However, the industrial class was not controlled by the state and state apparatuses even though it was dependent upon them. In fact, it enjoyed a limited degree of independence from the state and its apparatuses while being their creation. For example, the industrialists did not reinvest their profits in industry in accordance with state expectations.

Class, state, and international institutions were acting in concert with one another during the 1960s. The big industrialists enjoyed full-fledged support from the state and international lending agencies, and were able to consolidate their power by establishing strong complementary ties with the state bureaucracy and other officials belonging to state finance institutions. Only after it became apparent that a systematic process of maldevelopment had been unleashed (as proved by the crisis in former East Pakistan), did the state and international agencies withdraw support--due to the crisis of authority that the state was undergoing.

Just as metropolitan and state support is necessary for protection of class interests, class support is necessary for regime continuity. During the 1970s we witnessed the rise of a new middle class after the break in the monopoly power of the traditional elites. Mr. Bhutto made the dominant classes insecure as he hit at their interests. Eventually he was removed by the newly emergent bourgeois classes who had supported his rise.

Classes can break out of their position to a certain degree and impact politics, policy, and the nature and role of the state.

Different segments of capital are influential at different times; what is decisive is the question of which segment is influential and the degree to which that segment impacts policy. The basic theme of this dissertation--the rise of small-scale industrialists--leads us to two conclusions: first, the total number of capitalists increased in Pakistan, and second, the increase in their number reshaped politics in Pakistan. We have recorded, substantiated, and documented the changes in class structure that influenced political change in Pakistan in the form of Islamization policies, the continuation of ISI with a slight tilt to export orientation after the 1970s, and finally the changed power positions of small bourgeoisie and large capitalists. The role of the subordinate classes during the 1980s reflects their rise to power as politics was no longer elitist.

The interests of industrial class segments converge and diverge at different points and this is important in the formulation of industrial policy. In Pakistan's case, the tensions, contradictions, and aspirations of the subordinate classes serve to divide and unite them. The trend toward conservatism is partly the result of subordinate classes' assertiveness. Islam provided these classes a cause to fight for and introduce in the country.<sup>3</sup> The question of Islam's role in Pakistan as an issue is regarded as cosmetic and unimportant. However, the rising Islamic sentiment provides a very important answer in the

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<sup>3</sup>This does not imply that there were no underlying economic motives. The subordinate classes have also used religion to advance their own economic interests, but those instances have to be studied in their specificity. Here, we are concerned with the character of Islam as means of liberation and oppression.

context of structuralism. Although structural dynamics between classes and the state are important, they are not straitjackets. There is still hope for structural change from the subordinate classes as proven in the 1980s in Pakistan. With a wider based middle-class politics, the country's policies are no longer determined by a coterie of bureaucrats and well-placed individuals with key contacts. They are now also influenced by a larger section of the population whose voices can no longer be ignored.

#### Nature of the State in Pakistan

Regional politics and the outcome of class struggle within Pakistan defined the final outcome of the nature of the state. The power position of class factions vis-à-vis one another and the state presents a very complex picture through which we can view the state. We have discussed the policies of three regimes in detail in the previous chapters. These regimes constitute three very important phases in Pakistan's economic development. There are similarities and differences, continuity and disruption in the policies of the three regimes.

What was the impact on policy of the three different regimes? How did they deal with economic policies and options? A comparison of the Ayub, Bhutto, and Zia regimes highlights the changing nature of the Pakistani state from a weak authoritarian state in the 1950s and a strong developmentalist state in the 1960s, which was transformed into a populist state in the 1970s and became an authoritarian Bonapartist state in the 1980s. During its developmentalist era the

state relied upon the HAG advisers and economic theory to provide it legitimacy; during its populist era the state turned to political pundits and the public for support; during its authoritarian Islamic phase it relied upon religious ulema rather than educational institutions to provide it justification.

The state did not proclaim itself Islamic in the 1950s, even though it was the first ideological state and was specifically based on the idea of a separate Muslim nation within India. The secular developmentalist state of the Ayub era did not make a pretence of hiding its assertive stance on economic development and inequality which was a corollary of the development it was ushering in. It generated inequality, and not only was unapologetic but forcefully assertive about this stance. This position was made possible by the strength of the state vis-à-vis classes and support from international lending agencies and the United States.

The populist state of the 1970s is the transitional period of the state when it changed from a developmentalist state to a Bonapartist state with religious/Islamic overtones. The introduction of Islamic Socialism constitutes the symbolic injection of Islam into the body politic of the country. Islamic socialism was uncomfortably contradictory and awkward. However, under Bhutto, Islam was restricted to rhetoric and a few symbolic changes toward the end of his era, such as changing the weekly holiday from Sunday to Friday. This was an indication of the beginning of the compromise between the new middle class and the state.

Under Bhutto, the Populist nature of the state became apparent. In the wake of economic and political crisis, the state became increasingly authoritarian as it came to be entrusted with safeguarding dominant class interests. However, this role was difficult during the initial years as the relationship between class and state was characterized by ambivalence. On the one hand, it was disturbing the previous balance of class forces; on the other hand, it would give assurances regarding their future security. As a result of such vacillations various class segments came together in support of military rule. Martial Law under Zia ul Haq signaled that the ruling classes were in crisis and, therefore, had handed political power to a dictator who would ensure their economic interests. Thus the state became Bonapartist in character under Zia. It also adopted religious justification for its survival. Such justification held great appeal to the newly emergent bourgeois classes as it was in consonance with their cultural-ideological beliefs as well. Under Zia the Islamic aspect of the state consolidated itself, while Bhutto's "Islamic socialism" suffered a total eclipse. Islam came to the forefront aggressively, forcefully, sans socialism--symbolically setting itself apart from primarily supporting the downtrodden. It was the middle-class' Islam, not the poor man's. This Islam was no longer restricted to rhetoric but extended into the legal system, the educational system, and economic development policies.

Islam was used by the state and dominant class segments to coopt the subordinate classes. Islam is thus a double-edged sword both liberating and oppressing the subordinate classes. The subordinate

classes do not comprehend this contradictory role of Islam which is used to keep them in their subordinate position. It is a process that is negative as well as positive, a weapon for both class and state.

Policies should also be viewed from the perspective of the world-economy. The wave of neo-conservatism in the capitalist world took the form of reversion to Islam in Pakistan. It can also be connected to the reassertion of Islam in South, Central, and West Asia, in the wake of King Faisal's oil embargo of 1974. That was the beginning of the injection of Islam into Pakistan's economic policy and politics as Pakistan had found an alternative source of funding. Islam became more pervasive in all forms of public life. Previously Pakistan had nurtured close ties to Iran and Turkey due to RCD--an offshoot of CENTO. Now it hosted the Islamic Summit at Lahore in 1974 and began to identify increasingly with West Asia rather than South Asia. This change came at a time when the United States lost interest in Pakistan as a critical link in its containment policy and hence aid decreased substantially. The new tilt was also triggered due to the loss of East Pakistan and Pakistan's diminished status in South Asia vis-à-vis India. It came in tandem with the fact that the Muslim League's two-nation theory was irrefutably discredited due to the creation of Bangladesh. Additionally there was a wave of instability in the region: the Islamic Revolution in Iran; the restive Central Asian republics of the Soviet Union; the Afghan crisis and the Islamic nature of the resistance against the 100,000 Soviet troops. Within Pakistan, the PNA's success was based on its advocacy of Islam. Indeed, Islamic

overtone permeated the region and were reflected in class politics within Pakistan. However, the reality of the Islamic state in Pakistan was far deeper than mere rhetoric and domestic class struggles. The upsurge in Islam's popularity was indicative of a larger picture, reflecting domestic, regional, and international considerations.

While Islam became a dominant discourse inside Pakistan, not all its supporters gained equitably from enforcing it. The subordinate classes were ultimately coopted by the state through extensive use of Islam. This cooptation was made possible by the role of the World Bank in Pakistan which provided the state with the necessary capital to bargain effectively with various classes. Aside from the World Bank, funds were provided by Saudi Arabia for implementation of state-sponsored Islamic policies, and by the United States to Pakistan for the maintenance of the Afghan resistance fighters who are ostensibly fighting for upkeep of their faith. The Pakistani state was able to use these funds to suppress its own population more effectively through its coercive and ideological apparatuses.

#### Industrial Policy and the State

The problems with the policies that were followed were myriad and cannot be reduced to one set of items. It was not simply the choice of strategy but imperfect implementation that constituted a constantly deteriorating situation in Pakistan. Outcomes could have been different if the state had been able to go against the interests of the elite.

This study concludes that the choice of industrial strategy fails to answer the problems of the developing world. The inequalities that exist within third world countries such as Pakistan are part of the inequalities created at the international level through the international division of labor and specialization among countries of the core and periphery. According to Amin (1990, 49) "The history of underdevelopment is one of adjustment by the periphery to mutations and evolutions at the centre. In other words 'development' of the periphery has never allowed it to 'catch up' the centre, since each stage of the centre's evolution has meant a new change in the international division of labour, and the latter goes on being unequal and assigning the periphery subordinate roles." In this sense both ISI and EOI served to fill a vacuum left by the center as it moved up from production of consumer goods to sophisticated technology and now has entered the phase of knowledge creation as an industry, seen, for example, in genetic engineering, solar energy, synthetic food production, and information science. Thus countries which have experienced accelerated industrialization through import substitution and/or exports promotion are filling a void left by the center. At the state level the structure of inequality is recreated when the state structure itself safeguards the conditions of production by perpetuating inequality.

These inequalities are perpetuated in Pakistan through various mechanisms, ranging from state agencies to repressive state apparatuses to the weapons of ideology and consequent politics of religion. Pakistan's development experience is characterized by the failures

of the Ayub regime's experiment with development which culminated in Pakistan's breakup. The breakup of the state in itself was not bad; what was bad were the conditions faced by the peripheralized people of East Pakistan. Under Bhutto large-scale state-sponsored and state-financed development was initiated while all classes were variously reduced to impotence in the wake of the East Pakistan crisis. However, hopes of an improved polity remained unfulfilled, for new class configurations emerged only within the dominant class segments, under state patronage. The result of the new (sub)class configuration within dominant classes did not lead to equity or fair regional development in the 1980s under Zia. The process of maldevelopment has continued with new class factions replacing old ones without substantial improvement in social sector indices.

We may conclude that inequality is exacerbated through the core/periphery relationship, through class/state interaction, and through resultant economic maldevelopment. The specific manner in which these factors interact with one another determines the politics of a country. These factors produce the politics which in turn impact them. Thus it is an entwined process and constantly reinforced by its own dynamics.

#### Economic Development

There exists a dialectical relationship between class, state, and economic development. It is an ongoing process that gives rise to classes and politics that are extremely complex. Industrial policy in Pakistan demonstrates that relations between state and class as well as relations within class factions are guided by the type of economic development that takes place.

In Pakistan's case, economic development and industrialization were initially viewed as synonymous, and growth rates considered the critical indicators of development. To achieve high growth rates, the development process in Pakistan has been "state induced" rather than "state led."<sup>4</sup> This has taken place with the full approval of the World Bank, Pakistan's major source of capital lending. In this context, a World Bank publication entitled Pakistan and the World Bank: Partners in Progress raises a pertinent question: whose progress? The Bank sanctions loans for social services only when these are viewed and justified as investment in human resources. The Bank lends money for purposes of producing better skilled labor, technicians, auto-workers, etc. to maintain capitalist production. Thus countries are advised to follow market-friendly policies, i.e., privatization, liberalization of import controls and fiscal policies that benefit the entrenched classes within the state, and the developed world more than the developing world. These moves not only support the status quo, but also ensure its perpetuation.

However, out of this negative development for a select few can emerge the possibility of positive change. The process of maldevelopment will continue, but will eventually give rise to a new class politics. Unlike orthodox Marxist beliefs that workers will eventually

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<sup>4</sup>Frederick Deyo makes a distinction between "state-induced" strategies and "state-led" strategies. The latter has a small role for the state, while in the former the state is the main driving force behind the process of development and tends to be coercive in pursuit of its goals (1987, 17).

revolt, it was found that gradually a new middle class arose, which was more educated and aware of its interests. We have discussed the rise of this newly emerged middle class in Pakistan and proved that this subclass was the unintended result of economic development in Pakistan and changes in the world-economy. If this process carries on over long periods of time, it is possible to produce a kind of politics--politics of the subordinate classes, with their interests coming to the forefront--a politics containing considerably less exploitation in the form of unequal distribution.

Simultaneously, the rise of the subordinate classes can also give rise to a strong state that will act as the protector of subordinate class interests. Such an alternative is bound to be slow to emerge as the empowerment of subordinate classes is neither the goal of international institutions, nor of the state and its apparatuses. In fact because such an eventuality is generally not envisioned, and partly because the dynamics of economic development are outside government and state control, it is possible for circumstances to evolve that are favorable to the subordinate classes. And therein lies the hope for a new kind of politics and state model.

A strong state that can defy authoritarian regimes contains the answer for third world countries. The claims that these governments are strong and therefore can enforce policies is a fallacy as demonstrated by the Pakistani case. Authoritarian regimes, in the final analysis are dependent upon international support, and an elite coterie in order to operate. Thus, a strong state need not necessarily translate into Martial Law or an authoritarian regime.

This distinction is important. Pakistan's problem has been the latter. Its authoritarian rulers acutely needed outside support, thus its development was deeply colored by the interests of outside sources of funding, their policy logic, which ultimately served their interests. A strong state, then, implies that when such a state is faced with policy decisions it should, first, be strong enough to go against local elites and second, capitalize on foreign and transnational aid and capital to build its infrastructure and economy. However, we know that for such a situation to be possible, there must exist a political vacuum. Given the conditions of the world-economy, how can a state even try to avoid these structures?

Just as in Pakistan the green revolution set in motion dynamics that were beyond state control; similarly, the present oppressive policies that have little re-distributional value will set in motion a different dynamic of social change. For third world countries like Pakistan, which are characterized by extreme violence (both structural and direct), it is not the process of industrialization that promises hope for pulling it out of its dependent position. Industrial strategy by itself cannot promise meaningful transformation. However, it might, in combination with other policies, eventually create conditions that would make changes in the position of class segments possible. These changes in turn would impact state policies and later the state itself, setting in motion new dynamics of development and transformation.

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Note: Those who requested anonymity have not been included.