

Dual Elite Identity of Military in Pakistan

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Abstract

While the repercussions of military intervention in a political system have been well-researched in the political economy literature, how members of this institution develop and deploy their dual identity as a corporate and military elite, the focus of this paper, merits review. This study traces the nexus between the military and other major power elites of Pakistan to foster the rise of a major conglomerate. The military's hegemony over the political system helped it create a unique and separate business system within corporate Pakistan. This article concludes that this nexus between the military and its business group has helped this institution emerge as a hegemonic force among power elites of the country, even in a period when Pakistan is being governed by a democratically elected government.

Keywords Military, business, political system, elite contestations, Pakistan

Introduction

In contemporary literature a widespread work is done on military entrepreneurship, specifically in the developing world. This literature highlights the military's involvement in economic activities and had established militaries as economic actors involved in corporate activities, in shape of proper establishment of profit making industrial units to informally procuring resources for their own units. Since the twentieth century, military entrepreneurship is expanding and became the major contributor of private corporate sector by establishing corporations involved in multiple industries, welfare foundations and even unit-level commercial operations and the core reason said is to secure resources for the military institution and its members

(Brömmelhörster and Paes, 2004; Mani, 2007).

Literature define these military businesses as follows: the unique placement of resources and factors of production by retired military officers performing their duties in an institutional capacity as formal owners, managers and stakeholders of businesses that generate financial resources or goods directly benefiting the military. Their functions are mostly protected by political and legal sanctions, though not necessarily just or transparent. But these legal sanctions allow military to own its holdings apart from public sector ownership. Though they are having independent military ownership but still they are public actors whose loyalties are formally ascribed to the national state, while at the same time they are actively pursuing institutional interests through

their economic activities. This originates their dual identity in power structure of Pakistan where the power is controlled by the elites and Military comes as having an identity of military elite along with corporate elite.

Before going towards the military business of Pakistan, if we see the pattern of entrepreneurial activities of military in other developing countries then the prominent countries to be discussed are China, Indonesia, Cuba, and Turkey.

Mao Zedong's People's Liberation Army (PLA) in China from its early days, focused on its own economic activities for survival and political relevance. It established and expanded military enterprises that could facilitate the political agenda of the Communist Revolution along with provide a support to the military's needs. This expanded massively in the 1980s and make PLA an owner of a multi-billion dollar business running over 20,000 enterprises for self-supply and profit (Bickford, 1999). In Latin America, Cuba's Fuerzas Armadas Revolucionarias (FAR) adopted a guerrilla-revolutionary path and from 1960's had adopted role of an economic developers at the behest of their Communist Party peers (Klepak, 2005). FAR also became actively involved in managing Cuba's key industries, such as tourism and sugar, and has frequently been a source of economic planning advice for the regime in its efforts to restore and renew its political and economic viability in the Special Period since the 1990s (Liberalization Era) like PLA of China (Amuchástegui, 1999). Likewise, Indonesia's military has roots in guerrilla warfare during the Second World War and later against Dutch imperial hegemony (Rabasa and Haseman, 2002). But in Indonesia the corporatist-authoritarian

structures of military were evident later than Communist ones provided the political-ideological framework. Though, recently the Indonesian military's business activities have been among the most wide-ranging, including mining and oil interests, manufacturing and 'protection' for multinationals to generate assets estimated at more than US\$10 billion (Australian Associated Press, 2004).

But, the military coup by force is not followed in most countries. Usually, military businesses originates in a structure where military appears as the on or one among few organization with institutional training way before the state political structure is developed. This institutional training enable them to appear as a Last savior and lately as a mediator to solve the corporate declining issues by playing its economic actor role. Pakistan and Turkey reflect this dynamic as professional forces and modernisers in their national contexts, and both have long been political gatekeepers that frequently intervened in politics.

The cases discussed above elaborate that the shift of military elite role was driven by three factors, financial, ideological and political. Financial factors are the string providing logic for military to develop business activities as they need to support their defence related industries and also can channelize the technical resources they have more efficiently in earning profits (Brömmelhörster and Paes, 2004). Ideological factor back them as they always follow the doctrine of a last savior for a nation and when a state is going through the economic and corporate crunch then its part of their duty to outright and promoting social and economic development in place of the

state (Varas, 1985; Rouquié, 1987) Lastly the political reasons are the need to play their active role in power structure nexus when all other elites are colluding with each other. In short, the military's involvement in the economy can be a very logical phenomenon, but to explain it probably requires exploration of the interplay among a broad range of factors.

Based on the variation of military influences cases discussed of different countries, it provides a motivation to research in area of military businesses in a region such as Pakistan and Turkey where the military has had such powerful and wide-ranging influence. In literature regarding military businesses, countries like Cuba, Central American countries such as El Salvador, Guatemala and Honduras, and Ecuador have won the most attention from scholars . But single case studies are not be covered as such specifically in Pakistan. Only Siddiqua (2007) work is mentioned which discussed the military business in Pakistan. This article focuses on understanding the dual role of military in political structure and corporate structure by discussing the corporate expansion of military business under civilian led and military led regimes. Not least, this recent literature on Latin American military entrepreneurship has often been produced by scholars with close ties to policy-making circles. (For instance, within US academic circles the most prominent analyses of Cuba's military entrepreneurs are from Frank Mora, US Department of Defense, and Domingo Amuchástegui, a former Cuban intelligence official who defected to the United States in the 1990s. Similarly, one of the authors of the only major comparison of 'soldiers in business' in Central America is Kevin Casas, who

served as vice president of Costa Rica and now works at the Brookings Institution in Washington, DC.) The point here is not to suggest that such work is politicised or 'unscholarly'. Rather, it is to raise the interesting question of why the topic of the military's role in the economy has not garnered more attention from scholars whose work is not necessarily intended to result in policy prescriptions. Yet even policy prescriptions are likely to be defined with greater care and appropriateness if they are based on a clear conceptual understanding of the issue at hand, something that requires systematic, theoretically grounded and, ideally, comparative studies. In fact, the trend has not been in this direction with respect to interpreting the economic activities of the military in Latin America.

In this context, if we see Pakistan, Pakistan stands out as a case where the military is the most significant single player in the national economy. Through its pension and welfare funds it owns and manages corporations across Pakistan's industrial, manufacturing and agricultural sectors (Siddiqua, 2007). Similarly, Turkey's military owns and manages companies in sectors across the national economy through its pension and welfare funds. The main pension fund, OYAK, holds assets worth \$8 billion and has begun investing abroad (Gumbel, 2008). In both countries, military-run enterprises receive special tax benefits and subsidies that privilege them over private-sector competitors, potentially fuelling long-term animosity between the military and civilian business elites. However, there are also convergences of interest between the military and private sector. In Turkey the military's defence modernisation plans begun in the 1990s, which foster development of a national

defence industry, dovetail well with private sector industry ambitions (Hen-Tov, 2004). Similarly, Pakistan's civilian business elite has acclimated itself to a powerful military not least because incorporating military officers into their corporate management provides inroads to lucrative government contracts (Siddiq, 2007). Despite these important parallels, there are also important differences between the often-compared military entrepreneurs in these two countries: the Pakistani military's holdings expanded significantly in the 1970s in the context of military rule and state-led industrial development of the import-substituting industrialisation (ISI) era (Bose and Jalal, 1998: 230–233), while in Turkey the rapid expansion took place in the context of civilian government and neoliberal reforms in the 1980s (Demir, 2005), suggesting that the military's economic endeavours can flourish in starkly different political and economic contexts.

In the specific context of South Asia, the military preferred to intervene¹ in Pakistan and Bangladesh's politics directly, i.e. in the form of coups from the day of the establishment of these states. In Pakistan, military involvement is seen as a core institutional participant of the ruling domain. The military also plays an active role as a key business figure in the corporate sector. Mani's (2007) research on military entrepreneurship development and the impact this has had on state and society indicates that this institution's participation in economic enterprise is harmful for military professionalism. On

the other hand, these enterprises are quite durable because of Pakistan's market conditions and the military's ability to persist in an institutional setting (Mani, 2007). Mani's study supports the model proposed by Acemoglu and Robinson about institutional persistence even within different political regimes.

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

In Pakistan, the military's existence and expansion must be studied in the context of regional and global power relations. As the current international wave of invasions by the United States and allied forces in the Arab and Gulf regions and the attacks on Afghanistan in the name of the war on terror, governments have had to spend

¹ The term "military intervention" is frequently used in reference to the idea of civil-military relations. See for instance, Finer (1962); Nordlinger (1977); Decalo (1976); Bienen (1968); and Kennedy (1976).

more on their military forces. Pakistan increased its military expenditure – not including foreign assistance for this – from US\$3 billion in 1990 (6 per cent of the total budget) to US\$4 billion (9 per cent of the total). In addition, Pakistan received military aid from foreign countries. When looked at as a relative power in terms of military spending, Pakistan is increasing its expenditure compared to India and China. China's share has been decreasing over the last 50 years while the gap between India and Pakistan has narrowed, indicating considerable advancement by Pakistan (Kumar, 2003). In the case of Pakistan, the military also needs to be studied given its multi-connections with the corporate elite, along with its role as an elite group and its place in the political system as well as its linkages with International elites.

By the time the third coup occurred in 1999, the military did not just remain an elite group working to ensure the state's stability; this institution had also emerged as a major corporate group. The decision by the military to involve itself in the corporate sector was considered an epochal event (see Siddiqi, 2007). Hussain (1979) described military power in Pakistan as not just "interventionist" as per civil military models of western countries, but as part of the political and business systems. In this political system, the military had the power to take over the government at will. Fair (2011c) was of the view that the military in Pakistan is a force can maintain its control over the country whether in a ruling position or from behind the scene. Military coups will also prevail if it feels that its political and economic interests are undermined.

Crucially too, contestations among military elites can be linked with political

changes. Whenever a military coup happened, it transpired after some dramatic changes in the upper most echelons of the military. This was evident when Zia-ul-Haq was promoted as Chief of Army Staff by Prime Minister Zulfiqar Ali Bhutto although it was not his turn to hold such a high position. A similar regime change occurred not long after General Pervez Musharraf was promoted; he mounted the last military coup in 1999. While military elite has persistently been considered as a threat to political elites when it comes to the matter of ruling the state, they have also built themselves as a major player in the corporate sector. The businesses run by the military's four major welfare foundations, Fouji Foundation (FF), Army welfare trust, Shaheen Foundation and Behria Foundation, rank among the top business institutions in Pakistan. Their assets run into millions of US dollars with hardly any trace of accountability. An assessment of the history of publicly-listed companies owned by the Fouji Foundation Group (FFG) will provide insights into the argument that the military plays the role of a "dual elite", as a military and corporate elite.

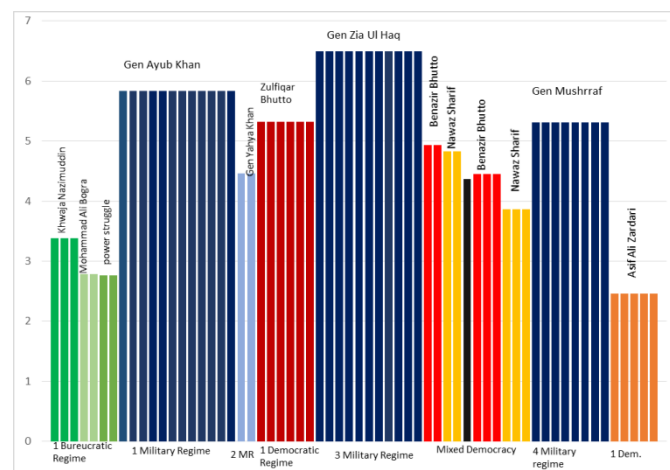
Military's shaping of the political system

This study analyzes the outcomes of power transitions involving the military elite control over state politics and the factors that led them to establish themselves as corporate elite. Its dual identity as a military and corporate elite contributed to the military elite's capacity to secure power on more than one occasion. When reviewing the first two military coups in Pakistan, the reasons behind them are relatively similar. In the first instance

(1958), other elite groups, particularly landlord elites, as well as the masses wanted the military elite to come in and control the political scene as bureaucratic elites were gaining more strength. In the second context, problems in society and among religious elites were used to justify a military coup, ostensibly to ensure stability in Pakistan.

How the state responded to the economy and the corporate sector during the respective tenures of military elites is in itself an interesting narrative. During all three tenures of military rule, GDP increased rapidly, economic stability was maintained and foreign relations were strengthened which helped draw in foreign investments (see Figure 1). Given these positive outcomes, the masses were willing to accept prolonged military control of the country (Zaidi, 2005b). However, within the military, numerous contestations occurred following the strategy of supporting political elites and other elite groups, particularly religious elites. Senior military officers have confessed that the military had played a pivotal role in creating and establishing the religious and political elite².

Figure 1: Average GDP Growth rate per Political Regime of Pakistan from 1950-2012



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

Since 1947, the threat of invasion from India had made the civilian government very dependent on the military. The internal problems of ethnic conflicts, national language, even border smuggling encountered in Pakistan in its early years compelled the civilian government to use military forces to help control law and order. However, this call to the military strengthened its belief as Pakistan's sole

² The former ISI head, General Hamid Gul, in a TV interview confessed that his institution had played a vital role in creation of the Islami Jamhoori Itihaad (IJI) which brought Nawaz Sharif to power along with a Religious elite, Qazi Hussain Ahmad, in the 1980s. See <https://www.youtube.com/watch?v=CuqBU2bF-7o>

savior and that its generals could run political and administrative endeavors in a much better way than democratically elected political leaders.

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

The close cooperation between the military and the bureaucracy has been well recorded (see Kamal, 2001; Rizvi, 1998; Sayeed, 1958; Shafqat, 1999). These studies note how this military government sheltered and nurtured industrialists in order to help them grow as well as support the endeavor to industrialize the economy. Interestingly, an outcome of this collusion between the military and industrial groups was the promotion of their own vested interests even as the economy generated growth (Kamal, 2001; Zaidi, 2005; Rizvi, 1991).

As Alavi (1986) notes, the bureaucracy and the military were the only two groups that were trained to be elitist by the British. The military and bureaucratic elites represented the urban class of society in that era, and to strengthen themselves more against landlords, they developed ties through marriages as landlords did among themselves (Alam, 1974). But this bureaucratic–military alliance was not always positive. During the first military regime, the Ayub government was convinced that the blame

for some of the political unrest had to be shared by the bureaucrats. Within one month of the declaration of Martial Law (October 1958), 272 military officers were appointed in administrative departments and agencies (Burki, 1969). During this time, landlords also kept developing their links with the military-bureaucratic alliance through marriage ties (Kukreja & Singh, 2005). Following these lines of developing links, the newly-emerged corporate elites also developed their position by either owning land in that area or by providing some benefits to bureaucratic elites in the shape of settlements or at the family level by developing marital ties.

The first bureaucratic regime ended when ethnic issues, aggravated over a number of years, flared up between East and West Pakistan in 1958. Iskandar Mirza, an establishment-backed president, widely lacked the parliamentary spirit, distrusting civilians to ensure the integrity and sovereignty of the country. His presidency was marked by great political instability, civil unrest and immigration problems. He was a great advocate of the “One Unit” scheme³; under his rule, all four provinces and states of West Pakistan were merged into one unit in October 1955. On 7 October 1958, Mirza issued an executive decree and a state presidential proclamation abrogating the 1956

³ One Unit was a geopolitical program initiated by the government on 22 November 1954. The program was the government’s response to its difficulty in administering the politics of two unequal areas, East and West Pakistan.

Constitution. Parliament and the provisional assemblies were dissolved and the government of Prime Minister Sir Feroz Khan Noon came to an end.

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

President Mirza and his Army Commander General Ayub Khan had begun the new era with apparent unanimity, which was described as a two-man dictatorial regime that evolved under the “establishment”, and the Pakistan Armed Forces. However, the two held very different views about how to deal with the new situation even though they were responsible for bringing about the change. This sharing of power soon led to a power struggle between the two men. President Mirza tried to balance the power structure by appointing Ayub as Prime Minister on 24 October 1958. The Cabinet he set up consisted entirely of non-political members. This did not satisfy Ayub who had more powers as Chief Martial Law Administrator. With the consensus of his military generals, Ayub arrested Mirza on 27 October 1958. He was exiled to Britain, where he later died.

After the ouster of Mirza, Ayub became the sole power in Pakistan.

Military Collusion with Foreign Forces

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

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

country which is a member of both of SEATO and CENTO.

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

Corporate Expansion under Military Regime

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

Though this industrial development increased GDP, it could not be sustained and growth was not distributed evenly. As discussed, during the military regime led by General Ayub arose the issue of wealth

concentration in the hands of a few families. Society was clearly divided between elites and the lower and middle classes. Since the middle class was emerging in this era, and as Ayub was a follower of modernization, this allowed intellectuals and the middle class to articulate their thoughts in public forums. These forums became the reason for Ayub's fall. Wilcox (1970), however, was of the view that the reason for Ayub's fall was primarily due to disputes that arose among military elites. Inequitable forms of development led to political decisions based on the vested interests of those holding power. In this situation, even risk-taking entrepreneurs stepped back from investing or moved to other countries, especially after the government's nationalisation policy began.

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

Khandker (1973) measured Pakistan's income distribution in the first twenty years and found more unequal distribution of income in urban areas compared to rural areas. He also argued that there was increased inequality of wealth in the form of corporate industrial assets. He found that a mere 47 stockholders owned 100 percent of corporate assets. These 47 stockholders consisted of 14 groups and 33 individuals (see Table 2).

TABLE 2: Distribution of Number of Principle Stockholders and Total Assets by Size, 1970

Number of Principle stocks					Total Assets			
Size of Assets	Single	Group	Total	%	Single Co. Million Rs.	Group Million Rs	Total Million Rs	%
Less than 25	10	-	10(10)	21	149	-	149	3
25-50	11	1(2)	12(13)	26	364	147	411	10
50-100	9	3(6)	12(15)	26	604	272	876	20
100-150	2	4(9)	6(11)	13	255	539	794	18
150-200	1	1(3)	2(4)	4	190	152	342	8
200-300	-	2(5)	2(5)	4	-	483	483	11
300-400	-	2(9)	2(9)	4	-	654	654	15
400-above	-	1(4)	1(4)	2	-	621	621	15
Total	-	14(38)	47(71)	100	-	2768	2768	100

Notes: Values in brackets present the total number of companies

Source: Khandker, 1973

Thirty four stockholders (with less than 100 million rupees) owned 33 percent of assets, 10 stockholders (with 100 to 300 million rupees) owned 37 percent and three stakeholders (with above 300 million rupees) owned 30 percent. This concentration of wealth allowed these business groups to indulge in illegal activities to expand their businesses. Papanek (1962) contends that investors offered bribes and were even willing to pay a legal surcharge of over 100 percent to import machinery.

Concentration of wealth among the big 22 families proved that power games had been played to enhance the personal interests of elites. In spite of high growth rates, people were unhappy with the military government and the middle class, specifically university youths who started voicing the need for equal rights and opportunities for everyone. Many reasons can be attributed for the fall of Ayub's

government. One of the reasons was the decision to withdraw from the 1965 war, after the Tashkand agreement⁴. Although Ayub blamed Zulfiqar Ali Bhutto (then Pakistan's Foreign Minister) for this⁵, his accusation later fuelled Bhutto's success in

⁴ The Tashkent Declaration of 10 January 1966 was a peace agreement between India and Pakistan after the Indo-Pakistani War of 1965. Peace was achieved on 23 September, following the intervention of the super-powers who pushed these two nations to a cease fire.

⁵ These differences over the Tashkent Declaration eventually led to the removal of Bhutto from Ayub's government. Bhutto launched his own party, the Pakistan People's Party (PPP). Although Ayub was able to quell public criticism, there is no doubt that the Tashkent Declaration greatly damaged his

the elections. Bhutto's main issue in the 1970 elections was the plight of youths and the working class whose votes made him the next Prime Minister. Bhutto's major support was from West Pakistan. In East Pakistan, support was primarily for Mujeeb Ur Rehman⁶. Given the conflicts between the military and Mujeeb, the latter helped Bhutto to become the Prime Minister⁷. The reason the military was in conflict with Mujeeb was his continuous pressure on Ayub regarding the latter's six point agenda which did not entail giving him regional autonomy.

image, one of many factors that led to his downfall.

⁶ Bhutto created a coalition government with Mujeeb who agreed Bhutto would assume the Presidency while he would serve as Prime Minister. The military government and General Yahya Khan were kept unaware of these developments. Yahya ordered a military action in East Pakistan. The Military Police arrested Bhutto and put him under house arrest. Mujeeb was charged in a military court.

⁷ Yahya spoke to Mujeeb and Bhutto separately. Mujeeb did not agree on any point made by Yahya, but Bhutto's stance was the need for dialogue between the concerned parties prior to any assembly session. For Bhutto, there were three crucial actors in this dialogue: the military, PPP and the Awami League. Unless there was a constitutional settlement between the three parties, the assembly session could not be convened. This hard stand by Bhutto suited the military and vested interests in West Pakistan.

Military Business Expansion

Military business operations involve all levels of the armed forces. These enterprises range from corporations to welfare foundations belonging to the different armed services, to the enterprises run by individual soldiers who use their positions for private economic gains. Given the broad range of economic activities involving soldiers and the geographic spread of this phenomenon, it is surprising that very few researchers have assessed the impact of military businesses on Pakistan's political system.

One of the largest business groups owned by the military is Fauji⁸ Foundation, established in 1954, under the charitable Endowment Act 1890, for the welfare of ex-servicemen. It was the first organisation of its kind in Pakistan, meant to cater to the welfare of military personnel from all the three services (army, air force and navy). As in the Turkish model, the military sought initial funding for this institution. The Rs. 18 million (US\$300,000) capital investment was provided by the Royal British military in 1947 as Pakistan's share of the post-war Services Reconstruction Fund for reinvestment purposes. The fund was established by the British to provide financial help and welfare benefits for British war veterans. The money was used to establish industrial firms in the western wing of the country. Today, FF is one of the largest conglomerates in the country. FF is also a major taxpayer. However, until the beginning of the 1970s, it was exempt from paying taxes. FF has investments in various sectors with high

⁸ Fauji means soldier.

consumer demand such as tobacco, sugar and textile production.

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

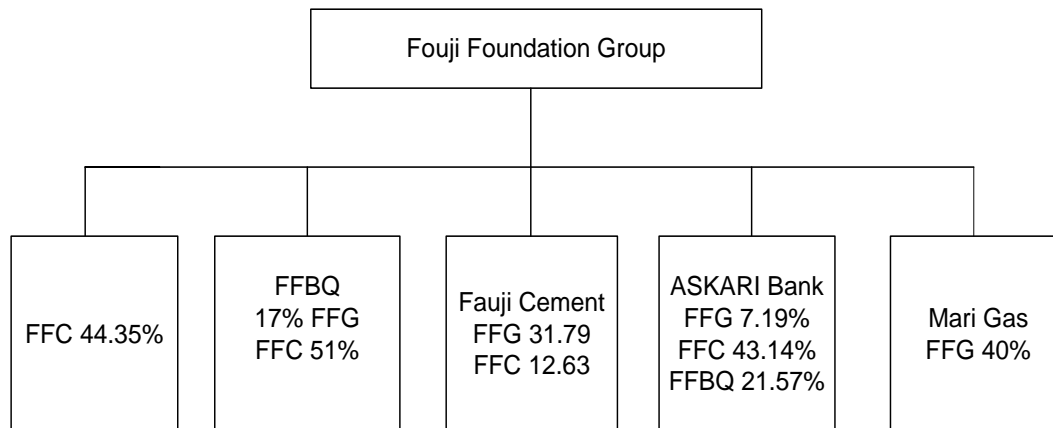
The Group currently employs 12,411 employees in various sectors including fertilizer, cement, natural gas, power generation, oil terminal operations, financial services, healthcare and education; the foundation is run by a governing board that is controlled by the army. The strategic control of the organisation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

From an operational perspective, FF is decentralised. Its four major divisions are

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

As FF is a military-owned conglomerate, it is active in diversified industries, but its public-listed companies are in fertilizers, cement, finance and oil and gas (see Figure 1). Foreign investors hold a nominal share of 7 percent in Fauji Fertilizers. Major shareholders include institutional investors and associated companies. In Fauji Cement, associated companies dominate the list of shareholders, having 49 percent of the total share while institutional investors own 32 percent. Similarly in Askari Bank, more than 50 percent of the shares are held by associated firms.

FIGURE 1: Company Structure & Shareholding Pattern of Fauji Foundation Group



Seven public listed companies of the FF Group were analyzed. The names of these companies are presented in Table 2.

TABLE 2: Public-Listed Companies & Year of Association with Fauji Foundation Group

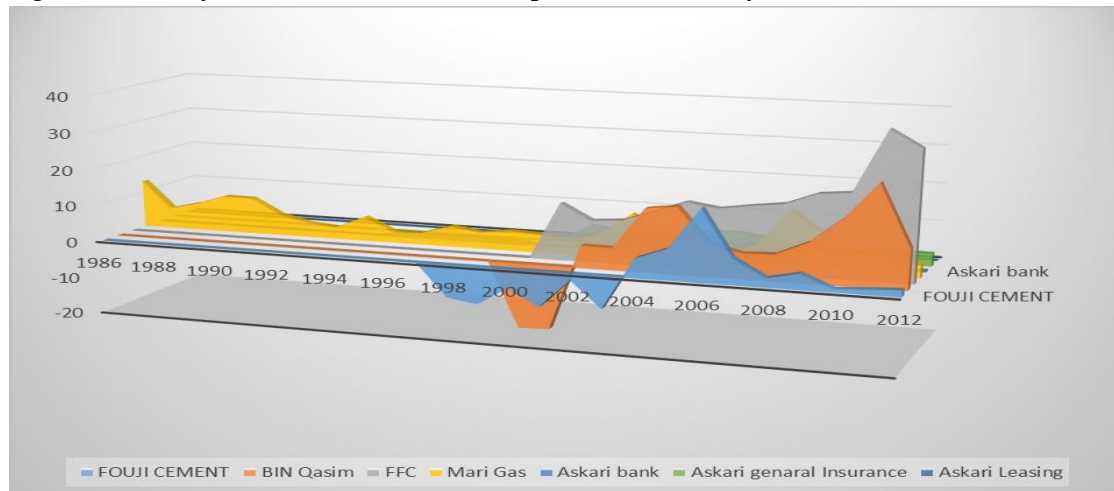
No.	Firm Name	Year of Association	Industry
1	MGCL	1986	Oil & Gas
2	FFC	2001	Fertilizers
3	Fauji Fertilizer Bin Qasim Ltd.	1995	Fertilizers
4	Fauji Cement Company Ltd.	1995	Cement
5	Askari Leasing Limited	2001	Financial
6	Askari General Insurance	2001	Financial
7	Askari Bank	1991	Bank

Although there are various accounting measures used to quantify performance, for the purpose of this study, two measures were adopted. Return-on-assets (ROA) is used to assess the ability of firms to generate returns on total assets available (Tezel & McManus, 2003). This is defined as profit-after-taxes over average assets multiplied by 100. For measuring loan accessibility of listed firms of business groups, a debt-to-equity (DTE) ratio is used. This is defined as total liabilities divided by total equity of the firm. The acceptable range of DTE in each industry varies. But the State Bank of Pakistan had recently approved it to be not more than 4:1 for any company. A figure higher than this means that in the financial mix more than 75 percent of its assets are backed by debts.

This study checked all these ratios of each year for all seven listed companies of the FF Group and in the years where the debt value was far above the ROA and ROE values. These years are considered as periods when access to debt of these firms was beyond their financial

performance. This indicates that some special privileges were given to the companies in that particular year or that some other special thing had occurred in the company that year.

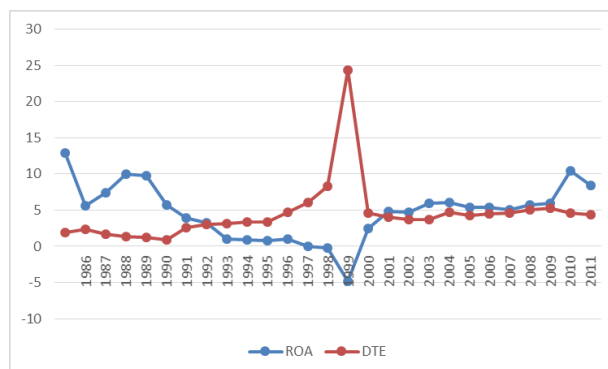
Figure 2: Yearly ROA of the Listed Companies of Military Business



As the FF Group is among the new groups established since the 1980s, only four regimes are covered. The FF Group was able to achieve a strong ROA from the start. Mari Gas, the oldest firm in the Group, maintained a smooth ROA, with an average 8%. Since it is a conglomerate owned by the military, the performance of all its companies has always been good.

Figure 3: Total Ratios of Public Listed Companies of Military Businesses

Table 3: Regime-based Average Ratios



items/ years	FFG		
	ROA	ROE	DTE
3MR (1977-1988)	6.473	19.29	1.492
MD (1988-1998)	3.641	13.35	2.966
4MR (1999-2007)	3.296	-12.35	6.908
1DT (2008-2013)	7.11	42.7	4.788

The DTE also shows the same peak as Bin Qasim Fertilizers in 2001 as the liabilities were highest during this regime. Being a military-owned conglomerate, FF Group maintained a steady performance under all

regimes. The only one big variation was seen is 2001 during another military regime when one company was shut down, indicating heavy equity loss. The funds

were reinvested it in a new project, Bin Qasim Fertilizers.

Taking the average yearly ratios of each regime, it was during the 4MR (1999-2007) that the Group yielded the highest DTE; its ROA was best during the 1DT (2008-2013). Table 2 indicates that the average ROA of the Group was 6.5 percent and the ROE was 19 percent with a 1.5 percent DTE during the 3MR (1977-1988) of General Zia. This indicates that the Group was not dependent on loans in its financial mix and yielded good returns due to its sales revenue. However, the regime in which the FF Group registered the least ROA was the 4MR, from 1999 to 2007, with 3.296 percent. Surprisingly, its DTE ratio increased to 6.908. The Group had yielded its least ROA at a time when it registered its highest debts, most probably in the shape of bank loans, under the same regime. These points lead us to reason that special favours were granted to the Group by that regime.

Conclusion

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

Latin America, the Caribbean, and Africa and in Pakistan, one sees a surprising continuity in public policies (Acemoglu & Robinson, 2006). Ironically however, one of the strongest institution in the states established in nineteenth and twentieth centuries was the military which had attempted to intervene in politics. It often staged military coup d'état. Therefore, most of Latin American, Asian and African states witnessed direct or indirect military interventions. The military reputedly intervened in these counties for a number of reasons or “motives”, i.e. protecting national interests, safeguarding sectional interests, enhancing corporate interests, etc. (see Finer 1962:32-57).

Nevertheless, over a period of time a majority of Latin America and Asian states preferred to adopt basic norms of democratic processes. The nature of civil-military relations and the transition to democracy in these countries nevertheless remains a constant topic of interest for experts of this field (Linz 1990; Huntington 1991 and 1995; Diamond 1992; O'Donnell 1973, 1978; Collier 1979; Croissant 2004).

Majeed and Macdonald (2010) did a study applying a cross sectional analysis of a large number of countries to study the effect on corruption of military involvement in politics. The analysis shows that the presence of the military in politics significantly adds to corruption in a society. In particular, the results reveal that a one standard deviation increase in the presence of military in politics leads to a 0.22 unit increase in corruption index.

Military leaders improve their personal financial condition by the frequent involvement in the economic system. To do this, they seek close working relations with local and foreign businessmen. The

military manages a secure business environment while businessmen provide capital and entrepreneurial skills. The engagement of the military in economic corruption is greatest when the military is involved in the political process.

On the basis of the financial analysis of the big business groups of Pakistan along with the business group owned by the military it is evident that the military had a strong tie with the corporate world. The military's political role also allowed it to run a parallel economic system. In spite of regime changes or political shifts, these different governments have provided support to private enterprises owned by the military, an indication of its hegemony over the political system. This business support was in the shape of providing economic and political stability during their regimes along with the other corporate favors.

As per Ball (1981) the political role of military in developing countries can be categorized in two aspects. First is the arms led strategy followed by the military government to curb civilian demands and second is the increase in the control of the scarce resources by military under their time of rule. There are four types of power elites who get benefit of developing a collusion with military, i.e., bureaucrats, military as an institution, the military elite, and the international elite (Ball 1981). The nature of corruption exists during military regimes too, but this time its nature was changed. In democratic and bureaucratic regimes, mostly individuals on the basis of personal connections use to get benefits, such as, benefits which political leaders avail during civilian regimes. But during military regimes a colluded benefits to all ruling elites like bureaucrats, corporate and military elites were observed. As

Edward (1980) said that the military and the civilian bureaucracy are best allies.

In Pakistan, such colluded corruption was seen at its peak at the time of the first military regime of Ayub (1958-1968). But in Zia regime, we observe the allocation of military officials in all public departments on deputations. And these military officials were present in the public offices during the mixed democracy era too. These top bureaucratic positions allow them to get involved with private companies and divert government expenditures into investments that are mutually beneficial for military officers and private companies. So rather than increasing control of the scarce resources only during military regimes, the allocation of serving and retired military officials at government offices had indirectly sabotaged the democratic political system of Pakistan.

Ghoshal (2009), concludes that 'a new model of military intervention in politics—rule without responsibility and accountability—has emerged in Pakistan, which obviously has both long- and short-term implications for political developments in third world countries and, thus, requires closer scrutiny and analysis'. In Siddiqua-Agha (2007) it is revealed that the military is entrenched in the corporate sector of the country and Pakistan's companies are in the hands of senior army officials. She also points out that the military elite's foster economic corruption in partnership with their civilian elites, such as the civil bureaucracy and entrepreneurial class. It is worth noting that Siddiqua-Agha's book has been banned in Pakistan.

Therefore, the true sense of democracy has never been observed in Pakistan. The well acclaimed reason of this has always been

provided as the inability and disloyalty of political leaders, but the military control over all political systems, even during so called civilian regimes, had played a vital role of not providing a civilian government to have a sense of stability between them, and resulted in making them follow the formula of taking as much benefit during their tenure for themselves and their allies. Military officers often argue that their intervention in politics is necessary because civilian governments are inefficient, corrupt and incapable of governing a country and as a result the country is plagued by widespread political, economic and social disorders. In fact, a military intervention or take over becomes easy in the presence of weak, poorly elected civilian-dominated governments.

The intention of this article was to prove that the military existence in business at Pakistan is not in similar lines as in rest of the world where military is controlling the main industrial assets too like USA and ..., But its this control can be considered as a cause and effect of its ability to control the power structure of Pakistan by being able to not only capturing the state as a military elite but also by strengthening its position in corporate world upto a point that it is has its identity as corporate elite also as strong as military elite. So, the times, they are not on the ruling elite position, they still control the economic and corporate situation of the state, which provides them the indispensable hegemony over the state.

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