



**Wharton** **ESG Initiative**  
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# Pakistan Background Note

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# Pakistan Background Note

## Politics and Governance

Pakistan was established as a federal parliamentary republic with a strong central and provincial government. The central government contains a President as chief of state and Prime Minister as head of government comprising the executive branch, and the National Assembly and Senate comprising the bicameral legislative branch. Pakistan's government has, however, oscillated between military and democratic regimes with the latter oscillating between the more left-leaning Sindh-based PPP party and the more right-leaning Punjab-based Pakistan Muslim League – Nawaz (PML-N) party. The military first took power in a coup d'état in 1958 ruling from 1958-1971. It maintained power thanks to an alliance of the army, the civil bureaucracy, and the small but influential industrial and landed elite. It implemented US-influenced neo-classical economic policies to encourage economic development.

From 1972-1977, democracy returned to the country with Zulfikar Ali Bhutto as Prime Minister beginning in 1973. The Bhuttos are an ethnically Sindhi clan from Sindh Province. Bhutto founded the PPP as a center-left socialist party whose platform included a strong emphasis on using public-sector expenditure to address income and social disparities. Bhutto and the PPP largely disapproved of the capitalist policies of the military era and ushered in a series of social economic policies, including

the nationalization of all major industries including steel, petrochemicals, energy and power. Parliament also approved a new constitution in 1973, returning Pakistan to a parliamentary democracy. However, Bhutto and the PPP's power base was largely confined to Sindh, making it difficult to unite the country. Bhutto's PPP won a majority in the 1977 general elections, but was accused of rigging the vote, leading to urban violence.

In 1977, the army seized power once more under General Zia-ul Haq. General Zia suspended the constitution, banned all political parties, and implemented a program of Islamization. Zulfikar Ali Bhutto was tried and executed allegedly for authorizing the murder of a political opponent. General Zia's government continued to receive Western support as a buffer against the Soviet Union after the Soviet invasion in Afghanistan in 1979.<sup>1</sup>

Democratic general elections were next held in 1988. Since these elections, Pakistani political power has largely oscillated between the PPP and the PML-N. The PML-N is considered the center-right, fiscally and socially conservative party with a platform of economic liberalization as a means to spur growth, based primarily in the Punjab. The PPP won the most seats in the 1988 elections, drawing many of its votes largely

<sup>1</sup>Asia Society. "Pakistan: A Political History." Accessed February 4, 2016.

Professors Witold Henisz, The Wharton School, and Natalie Peelish, University of Pennsylvania prepared this case as the basis for class discussion to accompany the case Abraaj Group's Integration of ESG Policies into the Turnaround of K- Electric rather than to illustrate either effective or ineffective handling of an administrative situation. The development of the case was financially supported by the Wharton Social Impact Initiative.

Some of the values and numbers presented throughout the case are disguised or should be considered approximate and may not represent actual values or costs. Statements and opinions expressed in this case are those of the authors. They do not express the opinions of the Wharton School, University of Pennsylvania.

from its traditional power base in Sindh where it is the largest party, and Benazir Bhutto, daughter of Zulfikar Bhutto, became prime minister. However, she was dismissed on corruption charges and replaced by Nawaz Sharif of the PML-N in the election of 1991. Sharif was born in Lahore to an ethnically Punjabi family of Kashmiri origin. Sharif implemented an economic liberalization program that included the privatization of many previously nationalized industries, including the energy and power sectors, the control of inflation, and the restoration of economic confidence and stability.

The PPP returned to power in 1993, only to be replaced once again in 1997 by the Nawaz Sharif and the PML-N. Then in 1999, Pakistan entered its third military period after General Pervez Musharraf ousted Sharif in a coup. General elections in 2008 ushered in yet another democratic era with the PPP winning the majority of the seats, and Benazir Bhutto's widower Asif Ali Zardari became prime minister. Though Zardari was deemed ineligible to remain prime minister in 2012, the PPP-led National Assembly remained in power until it was replaced in next election in 2013 by the PML-N, making the PPP-led coalition government the first democratically elected government to complete its five-year term in office and transfer power to a successor civilian government. During its tenure, the PPP-led coalition government enacted a wide range of constitutional reforms and worked to repair relations with India. The 2013 election ousted the incumbent PPP after voters were discontented by allegations of corruption and the deteriorating economy. The PML-N won the 2013 election and assumed leadership of a coalition government.

In 2015, the PML-N maintains control of the government under the leadership Prime Minister Mohammad Nawaz Sharif. The PPP is

the largest opposition party, while the Pakistan Tehreek-e-Insaf Party (PTI), the anti-status quo party led by cricketer-turned-politician Imran Khan and the Muttahida Qaumi Movement (MQM), founded initially to protect the rights of ethnic Muhajirs, are the two other major political players. The PTI was formed in 1996 with the aim of wiping out corruption and ineffective government, which serves as its current party platform, but only attained political relevance when it held massive rallies in 2012 in Lahore, Karachi, and other major cities.

Given the chaotic nature of Pakistan's politics over the past 65 years, many have characterized Pakistan's political system as broken and ineffective. Pakistan's nearly seventy-years as a nation have been wrought with military coups, murders and execution of national political leaders and high-level political corruption, which together have taken a large toll on its economic growth and geopolitical position.

According to a Washington Post article the crisis that is Pakistan's broken political system is ultimately about "the inability of Pakistan's civilian leaders to build an inclusive, functioning democracy that is capable of wreathing its political divisions."<sup>2</sup> Along these lines, several Pakistani political commentators note that Pakistan faces the task of setting government priorities in line with the needs of its ethnically, linguistically, geographically and economically diverse constituents.<sup>3</sup> The recent emergence of the PTI illustrates a deep discontent inherent in Pakistani politics and a dissatisfaction with the current political system.<sup>4</sup>

<sup>2</sup>Ishaan Tharoor, "Why Pakistan's Political Crisis Matters," *The Washington Post*, September 2, 2014, accessed February 10, 2016.

<sup>3</sup>"Pakistan: A Political History."

<sup>4</sup>"Imran Khan announces end of PTI Protests," *Dawn*, accessed February 10, 2016, <http://www.dawn.com/news/1151434>.

In terms of regional politics in Sindh, the PPP held control of the provincial government in 2015 with an absolute majority at 55% of the seats. The MQM is the leading opposition party in Sindh.

Turning to local politics, Karachi has been fraught with conflict and instability over the past quarter century. Much of the violence stems from a series of running clashes between the rival gangs allegedly allied with the long-dominant political powers in the city – the MQM and the PPP.<sup>5</sup> For years, power in Karachi was held by the Mohajirs, the Urdu-speaking descendants of the Indian immigrants who came at the time of partition, who have since wielded their political power in the city through the party apparatus of the MQM. However, the PPP has historically also claimed a power base in Karachi, especially in the Lyari neighborhood. The competition between these gangs has been notoriously corrupt and violent, including extensive use of gang-related extortion and violence of local businesses. Organized extortion first emerged in the 1980s as neighborhood gangs demanded money from businesses in exchange for protection from rival outfits affiliated with either the PPP or MQM, but after 1985, political parties supporting the demands of the city's ethnic groups adopted the gangs, enmeshing politics with the gang criminality.<sup>6</sup> Political violence and targeted killings became a part of the urban landscape of Karachi.

Between 1986 and 1996, political violence claimed at least 10,000 lives in Karachi and kidnappings and bombings were so frequent (see Figure 2) that the government sent in paramilitary forces to restore law and order to the region.<sup>7</sup>

Beginning in 2009, targeted killings as part of Karachi's political landscape began to flare up due to conflicts between and within the various gangs. Businesses braced themselves for a surge in extortion demands as “parties representing

the city's various ethnic communities seek to use their hired guns to build financial war chests ahead of parliamentary [elections]. Thousands of traders have already quit [the city].”<sup>8</sup> The All Karachi Traders' Alliance estimated that at least 40% of Karachi shops were forced into making extortion payments to the various gangs and the Karachi Chamber of Commerce, recognizing the adverse consequences the violence has on business, demanded a government crackdown on the violence. A 2012 survey from the Overseas Investors Chamber of Commerce & Industry found that only 16% of respondents expected to expand business in Pakistan.<sup>9</sup>

In late 2013, recognizing the severity of the violence and disorder in Karachi, the government sent in a paramilitary force under the command of the army known as the Rangers. The move was popular among city residents and businesses owners, and successfully decreased crime rates. The crackdown was initially limited to the slums and outskirts of the city targeting armed members of the gangs, but beginning in 2015, the campaign expanded into the center of the city and began to target party members and leaders of the PPP and MQM who had alleged financial ties to the gangs. Arrests, disappearances, and extra-judicial killings expanded in scale and scope.<sup>10</sup> While overall killings in Karachi are indeed down, the Human Rights Commission Pakistan reports a large increase in the number of killings by the police and paramilitary force – at least 430 were killed in so-called “shootouts” in the first nine months of 2015.

<sup>5</sup>“Karachi Political Violence,” Global Security, accessed February 4, 2016.

<sup>6</sup>Khurram Anis and Haris Anwar, “Death Threats Plague Business as Karachi Gangs Prepare for Polls,” *Bloomberg Business*, November 5, 2012, accessed February 3, 2016.

<sup>7</sup>“Karachi Political Violence.”

<sup>8</sup>Anis and Anwar, “Death Threats Plague Business.”

<sup>9</sup>Anis and Anwar, “Death Threats Plague Business.”

<sup>10</sup>“Upsetting the Apple Cart,” *The Economist*, September 5, 2015, accessed February 4, 2016.

Despite the political upheaval, local business owners seem to welcome the actions by the Rangers, with the leader of the local merchants' community stating, "Peace is returning to Karachi because of the steps taken by the Rangers."<sup>11</sup>

## Economy

The dominant economic ideology of Pakistan's government has varied significantly across time and across provinces since Pakistan achieved independence in 1947. During the 1950s, the national government attempted to stimulate industrialization through public sector growth with the notion that public investment would serve as a springboard for private sector growth. The government also encouraged the formation of an indigenous capitalist class. The so-called "Development Decade" of 1958-1969 reflected a reliance on Western economic techniques to solve Pakistan's economic problems, including a heavy reliance on foreign loans and an effort to stimulate the growth of the private capitalist sector. As a result of this strategy, capital in Pakistan became highly concentrated in the hands of a small group of industrial families, creating massive wealth disparities. Then, the election of Zulfikar Ali Bhutto of the Sindh-based PPP in 1972 reoriented Pakistan's economic philosophy as Bhutto campaigned and implemented a platform of Islamic socialism through a program of nationalization and the continued expansion of the public sector. In the 1980s and 1990s, Pakistan once again reoriented its economic ideology under numerous different governments as it attempted to move away from the extensive state ownership and regulation of the economy through the privatization of public sector enterprises and a structural adjustment agreement with the IMF. Both Nawaz Sharif's PML-N government and the successor PPP government's pursued limited privatization of the oil, natural gas, and power

sector. Since the 2000s, Pakistan has experienced a period of economic re-stagnation during the global economic recession, though in his third term as prime minister, Nawaz Sharif's government has managed modest economic growth through his continued privatization and economic liberalization program.<sup>12</sup>

Pakistan's economic growth has varied significantly since its founding in 1947, as evident in Figure 3. Nonetheless, by many accounts, Pakistan has made substantial development progress, and overall, Pakistan's GDP grew at an average of 5% per year from 1946-1996.<sup>13</sup> Growth was relatively slow during the 1950s, with GDP growth averaging only 3.1% per year, as Pakistan moved to implement its state-sponsored industrialization and capital-injection program, yet economic growth accelerated during the 1960s, with GDP growth reaching 6.7% per year, as these programs came to fruition.<sup>14</sup> Despite political instability, economic mismanagement, and the nationalization program implemented by Bhutto, Pakistan's GDP managed to grow at a rate of nearly 6% per year until the 1990s. Pakistan experienced severe stagflation in the 1990s, and while Nawaz Sharif's government attempted to combat this stagflation through economic privatization and liberalization programs, his government was only able to restore GDP growth to just over 4% by the end of the 1990s.<sup>15</sup> The early 2000s saw a period of restored economic growth, which was then tapered by the global economic downturn. In 2013, Nawaz Sharif assumed office for the third

<sup>11</sup>Ibid.

<sup>12</sup>As summarized from: Christopher Candland, *Labor, Democratization and Development in India and Pakistan* (Routledge, 2007).

<sup>13</sup>Candland, *Labor, Democratization and Development*.

<sup>14</sup>Ibid.

<sup>15</sup>Ibid.

time and inherited an economy crippled with only mild economic growth, hyperinflation and a large budget deficit, but a \$6.6 billion IMF loan, lower oil prices, higher remittances, and increased consumer spending pushed GDP growth to a seven-year high in 2014-2015.<sup>16</sup>

Sindh's economic ideology differs slightly from that of Pakistan as a whole. Many of the same seemingly statist or nationalist policies exist at a much higher degree. While urban Sindh is characterized by a largely modern and fast-growing economy, much of rural Sindh is regularly described as having a feudal economy, with one-quarter of the Provincial Assembly's seats held by landlords.<sup>17</sup> The inequality between the urban and rural economies is pronounced. Sindh includes both Pakistan's richest – Karachi – and poorest – Tharparkar – districts. Per capita consumption in rural areas is less than one-third of that in Karachi and only about 5% of total bank deposits in Sindh were outside of Karachi. Additionally, quality health and education facilities are concentrated within the metropolis.

Karachi's urban economy holds a disproportionate share of national commerce, industry and, especially finance. Its port serves as an entry way to the country for imports. Karachi's rate of literacy (72%) and employment (81%) far exceed the national averages of 52% and 48% respectively and GDP per capita is more than 50% higher than in the rest of the country. 35% of direct taxes, 42% of value added in manufacturing and 40% of all economic activity originate in the city which constitutes only 10% of the national population but 20% of Gross Domestic Product.

<sup>16</sup>"GDP Growth: Pakistan," The World Bank, accessed February 4, 2016.

<sup>17</sup>Congressional Research Service. "Pakistan's Sindh Province," (Washington DC, 2015).

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