

Shylock tamed: now kill 'Prudy'

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When Pakistan was made it didn't have an industrial or commercial base worth the name. Worse, the institutions that enable industry and commerce were absent. There wasn't even a central bank or national currency. Mr Jinnah understood that the new country urgently needed to erect the pillars on which an economy stands. He called the entrepreneurs who were to become the future pioneers of Pakistan's business and industry, most of whom had migrated from India at his request. Jinnah told them that Pakistan needed a shipping industry, an airline, insurance, jute, cotton textiles, cement, a stock exchange and banking, amongst others.

They rose to the founding father's call and came to Pakistan. The Cowasjees, the Arag Group, the Dadas and the Habibs formed a consortium to establish the Pakistan Steamship Company. Orient Airways, which later became PIA, was set up under the stewardship of Zafarul Ahsan and financed by the Ispahanis, Adamjees and Arag. The Adamjees also set up Adamjee Insurance, and Arag made EFU, run by the legendary Roshan Ali Bhimjee. Sir Adamjee went to East Pakistan to start the jute business. Qasim Dada and others set up the Karachi Stock Exchange. One of the few Muslim-owned textile mills was Colony, owned by Naseer Sheikh. Yusuf Saigol was the first to import 200,000 spindles. The Dawoods, Valikas, Adamjees, Bawany and Arag also went into textiles and made it Pakistan's largest industry. Chemicals, light engineering, machine tool factories like BECO sprang up in the sixties. Mr Jinnah died in September 1948, but the early pioneers of Pakistan's business stayed true to his call. By the 1960s our economy had become a model to emulate.

Habib Bank was already there at partition and shifted its headquarters to Karachi. So were MCB, owned by the Adamjees and Arag, and a small bank called Australasia. National Bank, a commercial bank in the public sector, was established and has the largest branch network today. There was no central bank and Dr Zahid Hussain was appointed the

Pakistan was at takeoff stage.

Then came disaster in the form of feudal politics in the guise of democracy. Pakistan and its industry received two deadly blows. The first was the separation of East Pakistan in 1971 after elections whose results suited neither the dictator Yahya Khan nor the most prominent loser Zulfikar Ali Bhutto. Their refusal to accept the people's will resulted in a catastrophic civil war and defeat by India, followed immediately by the fascist misrule of Bhutto. Disintegration saw a huge part of Pakistan's business and some of the pioneering families disappear. Fascism put paid to what remained, with state theft of private property under the pretext of nationalisation. Banking and insurance were not spared. With industry and commerce biting the dust, the feudal hold on state power strengthened, which was the hidden agenda behind nationalisation. Today's excuse of Bhutto's minions that nationalisation was then in vogue rings hollow. Governments don't mindlessly follow fashions; they think things through. In any case, by the time of Bhutto's visitation nationalisation had failed in Europe, particularly in Britain. That nationalisation was in vogue is akin to taking a mental impairment plea. Tomorrow if the West starts jumping off a cliff should we also do so, just because it is in vogue?

that our first business pioneers were replaced mostly by crooks that built empires by bribing their way through an over-regulated economy and by theft aided by political patronage. It was not what you knew but whom you knew that became the norm for success in business. The nadir was reached when the State Bank knowingly presided over the misuse of \$11 billion of private foreign exchange deposits by the Benazir and Nawaz governments. They had to be frozen and their owners forced to convert them into rupees at an unfavourable exchange rate. It was the greatest bank robbery in history. Banking had become worse than Shylock, the moneylender in Shakespeare's *Merchant of Venice*. The challenge was to tame Shylock.

The early Musharraf, unlettered in the machinations of the devious, started off on the wrong foot by falling for the disastrous advice of then State Bank governor Dr Yaqoob, who had criminally presided over the theft of the \$11 billion of private money that he held in trust. To save his own skin he gave a simplistic solution to simple soldiers: if they forced businesses to repay 'defaulted' loans the economy would be revived, as if by magic. He didn't tell them how much of the 'defaulted' amount was principal and how much accumulated interest, some of it compounded, yet another banking crime. Neither did he inform them how much of it was owed by public sector corporations and the federal and provincial governments. The government took the disastrous step of making him a member of the National Security Council, but when a hue and cry was raised he was quickly booted out. But the damage had been done. Yaqoob had given his parting kick to the nation. NAB went for businessmen instead of corrupt rulers, which was the demand of the time, and still is. Many businessmen were arrested on spurious or no evidence. But NAB didn't touch any banker or go into the government-created conditions that had led to default. Business and investor confidence took another nosedive. When

bank and Dr Zahid Hussain was appointed the first Governor of a State Bank that didn't exist. Twenty-four year old Altaf Gauhar was his and the bank's first Secretary. Hamza Alavi was also there and was later to set up the State Bank's first labour union. De la Rue was called in to print Pakistan's first currency notes. Foreign experts advised that the new country couldn't have a central bank for 10 years. Mr Jinnah rejected their advice and ordered that the State Bank be established by 1948, which he would personally inaugurate. It was, and its inauguration was a frail and ailing Mr Jinnah's last official act.

The zenith was reached in the sixties when many new industries were established, including banks, most notably UBL, financed by Yusuf Saigol and run by Agha Hasan Abedi, Jamil Nishtar and Mundrawala. A number of infrastructure projects were started, like Mangla and Tarbela dams, the Steel Mill, Port Qasim, the Heavy Mechanical Complex and the Heavy Industrial Complex, both with Chinese help. So were space research and our nuclear programme, with the establishment of SUPARCO, PINSTECH and KANUPP. Some came to fruition later and successor governments unfairly stole the credit. PIA was the second best airline in the world.

Came Musharraf and banks had been run into the ground. Banking was unarguably the most highly protected business in Pakistan. Twenty-five percent of bank loans were non-performing, generated by political patronage and corruption. Banks were hugely overstaffed, every political party having had their inept workers employed in them wholesale. Nawaz Sharif tried to do something to make banks attractive for denationalisation, for now privatisation had come into vogue. Shaukat Tarin and Zubyr Soomro were put in charge of Habib and United Banks respectively. They did much to improve their condition; how they overcame political pressures must be quite a story. Many new banks were allowed in the private sector. Interest rates touched a peak of 24 percent during 1988 to 1999. The sanctity of limited liability was not respected and sponsoring directors had to give personal guarantees to get loans. Yet loans that everyone knew would never be returned were given to political favourites against a telephone call or orders on a small chit of paper. Pliable bankers were made presidents of banks to do the bidding of their political masters. Banking became a primitive joke and was one of the main reasons for industry being run into the ground. An enduring damage was

taken another nosedive. Worse, the biggest crooks roamed free and were later rehabilitated under the guise of plea-bargaining. Only some of the lesser crooks were arrested, and some who were totally innocent.

Happily, the government also took some good decisions. One was to appoint Dr Ishrat Hussain State Bank Governor. He set about reviving banks by placing them on the track of honesty and modernisation. In just five years we have come a long way. Ishrat became the Shylock Tamer. Interest rates have come down. Many new financial products have been introduced. Political interference and undeserved loans have come to an end, as has nepotism in employment. There is a long way still to go. Prudential Regulations or 'Prudy' are a thing of the past; these must go and banks left to take their own decisions and risks. The good news is that we are going in the right direction. The bad news is that Dr Ishrat's term comes to an end this November. Where will he go, for it would be a pity to lose him? As importantly, who will replace him, for the momentum of banking reform must not only be maintained, but also accelerated.

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