

# Knowledge Brief

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## Batala Engineering Company (BECO): A Tragic Story of Plummet from the Apex

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### Introduction

One of the most telling episodes of Pakistan's economic history, with far-reaching consequences, was the 'Nationalization' policy initiated by Zulfiqar Ali Bhutto's government, which saw large swathes of economic activity coming under the umbrella of the public sector. The spillovers of this policy can still be felt in the form of a public imprint on economic activity in the country and form part of the assiduous debate on its outcomes. The industrial sector bore a substantial brunt of this policy. In this research piece, we document the case of Batala Engineering Company (BECO), established in 1932 by Mr. C.M Latif, an institution that reflected the emblem of the efforts, dedication, and sincerity on the part of its founder. Moreover, despite adverse circumstances at the time of the founding of our country, BECO continued to function and became one of the most successful industrial units over time. However, nationalization trumped the fortunes of this company, substantially affecting its performance. Thus, a promising establishment came under public management, with significant spillovers in terms of post-nationalization aspects.

From a policy-making perspective, this research piece makes two contributions: a) what nationalization is implied for the industry, reflected in the BECOs case, and b) given that the federal government still runs many SOEs, whether the government ought to be running such industrial establishments as BECO through the public sector?

### BECO Genesis and Expansion

BECO was registered with Rs 6024 in Batala. CM Latif bought its first 300 shares, as per the Companies Act of 1913. After receiving the commencement certification (1933), BECO started its manufacturing units. In the initial years, the first workshop of the BECO consisted of two rooms and a veranda, where CM Latif worked quite diligently. His main focus was on the expansion of BECO in terms of its manufacturing capacity, capital, and land. He hunted for skilled talent, capital, and land for this purpose through increased share prices. BECO began earning profits in 1936. At the onset of World War II, the prices of materials shot up, making the business very profitable, enabling BECO to install two Japanese lathes in the agriculture shop. This progress manifests in the business acumen of CM Latif, who was able to promptly identify and meet market demands. He knew that time-to-market was a decisive success factor in grabbing maximum market share. During 1940-1944, BECO succeeded in extending its capacity with the help of the

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lease offered by the government. BECO also opened a branch office to represent BECO in Lahore. This was when CM Latif's foreign visits to major European countries won him international recognition. Believing the importance of knowledge transfer, he hired two German Engineers for BECO (1947) to capitalize on their expertise. During partition (1947), BECO was one of the largest three machine tool manufacturers in the subcontinent.

After partitioning, CM Latif started BECO from scratch in the allotted premises of Mukand Iron & Steel Works Ltd. in Lahore. In 1948, BECO had foundries, machine shops, and an electric arc furnace for the manufacturing of agricultural implements, lathes, shapes, etc. 120 machines of the Wagner Plant from Germany were installed, following huge construction and reconditioning at colossal costs. In three years, the deserted Mukand Factory had transformed into a new BECO with eight departments (See **Box 1** for a brief history of BECO). His patriotism, vision, leadership qualities, dedication, and business acumen made CM Latif stand in the face of all uncertainties and chaos. The tremendous success of BECO during the early post-partition years is evident from the address of CM Latif at the Annual Meeting (1952), where he summarized all the progress made, problems faced, and potential future projects. CM Latif was determined to meet market needs using the resources to their full potential for national prosperity, despite the energy crises (low voltage and frequent power breakdowns). He was a patriot to his core, who firmly believed that patriotism could do wonders. In his address, Latif also mentioned the need to Patronize Pakistani Products to save millions of foreign exchanges on imports of products such as Wagons for the Railway sector. He elaborated how India with a need far greater than that of Pakistan was then indigenously producing coaches, wagons, locomotives, etc., for Indian Railways. He emphasized the need to put the confidence of Pakistani Railways in an indigenous national asset like BECO to meet this demand. Unfortunately, the government did not extend its patronage to the BECO and prioritized importing railway wagons. Likewise, he pointed out that there was no effective Import and Export Policy to have a Balance of Payment in a newly established country to develop and facilitate infant indigenous industries. This resulted in missed opportunities for domestic industries and huge foreign exchange on imports. National needs should be prioritized over individual schemes and interests. This precedence has always been overlooked since the birth of Pakistan. Undue political interference and unhealthy attitudes on the part of poor national leadership toward the prosperity of industries have been some of the core hindrances to Pakistan's prosperity.

#### Box 1: Brief History of BECO in Time

Year	Events
<i>Pre-Partition Era</i>	
1932	The genesis of BECO as a Public Limited company with an authorized capital of Rupees One Lakh and paid-up capital of Rupees 2700.
1933	BECO received the Commencement Certificate
1938	BECO acquired the land to establish manufacturing units for agricultural apparatuses.
1939	CM Latif partnered with DulatRam for Capital investment to buy scrap & more raw materials. BECO earned huge profits during World War II. BECO installed two Japanese lathes in the agriculture shop.
1940-1944	BECO extended its capacity with the help of the lease offered by the government. An assembly shop was established. BECO opened a branch office in Lahore to represent BECO in Lahore.
1947	BECO hired two German Engineers for BECO in 1947
<i>Partition in August 1947</i>	
BECO became an informal refugee camp for Muslims in Batala. The shareholders and directors of BECO migrated to Pakistan along with CM Latif. CM Latif donated for the establishment of institutions in a newborn state.	
<i>Post-Partition Era</i>	
1947	BECO started from scratch in the allotted premises of Mukand Iron & Steel Works Ltd in Lahore. 120 machines from the Wagner Plant from Germany were imported & installed
1948	BECO started manufacturing agricultural implements, lathes, and shapes.
1948	BECO started foundries, machine shops & an electric arc furnace
1950	The ownership of the BECO to its shareholders was completed by a Conveyance Deed of Exchange.
1950	BECO started manufacturing slow-speed diesel engines
1952	BECO installed 4 re-rolling mills to produce high heavy structures like oil tanks, canal gates etc.
1953	First joint venture with German for production of centrifugal & deep well turbine pumps

1956	BECO started high-speed diesel engines with German collaboration
1960	BECO established a small workshop in the Tejgaon Industrial Area, near Dacca, the KSB factory at Tongi near Dacca (now Dhaka) started production of vertical turbine pumps
1968-1970	Annual profit of 2,53,28,505 PKR (1968), 2,91,89,361 PKR (1969), 1,75,94,779 PKR (1970)
1972	BECO Ordinary Share Capital toned at PKR 40482050 with reserves of PKR 4 Crore
1972	Bhutto nationalized 31 industries including BECO under the Nationalization and Economic Reforms Order.
1977	CM Latif refused the offer of Gen Zia-ul-Haq to take back control of the company unless the same offer would be extended to owners of all nationalized industries.
1995	The Privatization Commission ordered to closedown of Badami Bagh Works.
1998	PECO had accumulated a loss of PKR 761.58 billion
1999	The Privatization Commission advertised PECO's sale. CM filed a case in the Lahore High Court but was declined.
2003	the Government negotiated privately to sell PECO's assets
2021	the Privatization Commission board proposed to remove PECO from the active privatization list
At present	Company is non-functional

BECO's collaborations were technical tie-ups with the top firms of developed countries for technology transfer—a fundamental element for building the heavy industrial base of the newborn country. Initially, CM Latif imported 260 diesel engines from Germany in 1962 to the East Pakistan Agricultural Corporation. Using and observing the functioning of these diesel engines gave confidence to the heads of BECO that further orders would be successfully “*Made in Pakistan*” in their workshop in Tejgaon, Dhaka, with a team of experienced technicians and competent foreign engineers. What BECO envisaged and practised to ensure knowledge sharing is better grounded today in several agreements such as GATTs and the Doha ministerial declaration acknowledging technology transfer as one of the most appropriate tools to integrate developing countries into the global economy to enhance their export shares.

BECO's remarkable progress manifested in its Balance *Sheets* and the *premium value of its shares* shows the sound

**Box 2: Some Distinguished Local & International Visitors & Delegations at BECO**

Khawaja Nazi mud Din, Prime Minister of Pakistan	1952
Mr. Fazal ur Rehman, Minister of Commerce	1952
Mr. Abdul Qayyum Khan, Minister of Industries	1953
Mr. Daultana, Chief Minister of Punjab	1953
Ch. Zafrullah, Foreign Minister	1953
Dr. Khan Sahib, Chief Minister West Pakistan	1953
Mr. A K Khan, Minister of Industries	1955
Chinese Prime Minister	1956
Mr. H.S. Suhrawardy, Prime Minister of Pakistan	1956
Russian Delegation	1956
MD of KSB Pumps from West Germany	1956
Nigerian Delegation	1957
Mr. Ghulam Farooq, Minister of Commerce	1957
Governor Akhtar Hussain	1959
Royal Highness King of Thailand	1962
Egypt President Nasser	1962
Zulfiqar Ali Bhutto	1962
Prime Minister of Lebanon	1963
President Ayub Khan	1967
Afghan Minister for Commerce	1967
UAE Delegation	1967
Turkish Ambassador & Industrialists	1967

*Notes: Besides, BECO was honored to host Saudis Technicians for training at Rolling Mills, Karachi.*

financial position and transparency enjoyed by the company for years. This projected CM Latif as a visionary industrialist who was capable of macro-scoping the trends, opportunities, and need sets of the emerging market demands. This helped him win the market's trust. He strategized his business plans to accomplish expansion by upgrading existing machines and installing new ones to enhance the production capacity to meet market demands. He focused on product diversification, new products and processes, and grabbing and expanding target markets, but did not compromise product quality. He strongly believed in creating more opportunities for the creation of money by expanding business and by generating more employment opportunities to add value to national wealth. He steered BECO through issues such as taxes on raw materials, red-taped delays, inefficient government policies, and energy crises with his firm conviction to make BECO an internationally recognized industry for its quality and modern products. The sound governance system at BECO was one of the factors, contributing to its success and survival through thick and thin. Admittedly, its products were ahead of time. He believed that healthy competition was a vital element for the survival of the fittest. His concerns for national issues such as food scarcity, all sister industries, and sectors like agriculture, textiles, railways, forces, and power plants, etc. show his professional integrity. BECO stood as a key industry, pioneering the manufacturing of vital machinery and engines

throughout Pakistan. The value addition was vivid, as for every rupee worth of import of raw material, BECO was producing goods worth three rupees. Leaving necessary for unnecessary shows the priority of the Directors of Industries, who could otherwise issue licenses to import the looms (1957-1958) to increase national production capacity. Unfortunately, the engineering industry in Pakistan, could not draw significant government favors in the era, when European and Western engineering industries were receiving priorities from both the government and the public. BECO—an exhilarating profit-making industry and a national asset—became the victim of vandalism and the nepotism of the Director of Industries. Before mentioning the undeserving and ruthless fate BECO met at the hands of ruthless politicians and bureaucrats, the reputation BECO enjoyed internationally is worth mentioning. BECO lathes in Australia, BECO engines in Vietnam, the presence of BECO at the New York World Fair, and the visit of Czechoslovak experts to BECO are the manifestations of BECO's presence and popularity in the international market. Multitudes of international and national dignitaries visited BECO and all appreciated its infrastructure, working environment, workmanship culture, and awesome progress (See **Box 2**). For example, then-developing countries like China and South Korea turned to Pakistan to learn about its industrialists' entrepreneurial abilities. During his visit to BECO, Chou-En-Lai, the first Prime Minister of China (1956) showed his interest to suggest Chinese “to study and to learn” BECO technology to help China build its technology.

## Nationalization - A Socialist Rhetoric-*The Fall of BECO*

**Economic Reform Order, 1972:** The zenith of BECO witnessed 6,000 workers producing tools and engines and contributing to their national progress. Its founder C.M. Latif was a “towering entrepreneurial personality of Pakistan industry” at the time of nationalization. However, the Nationalization Policy acted as a lethal blow to the private sector industries. Some 31 industrial units including BECO were nationalized to lessen income inequalities. BECO termed it a catastrophe for the capital and intermediate-goods-producing sector. Several questions were raised but remained unanswered. BECO put this order as “the law of the jungle” and promised compensation to the employees, however, the employees were terminated from services and nobody could challenge the government-appointed managing directors.

This became also evident when the “lucky” families with good connections to the government did relatively better during nationalization (Noman, 1988) and got favoritism e.g. Hyesons which financially supported Bhutto during elections (Zahoor, 2011). BECO termed it as a “Government's treachery” and “BECO's official sponsored victimization” in the name of socialism. Sadly, history justified the author's claims. Unfortunately, the nationalization in hindsight did little for the redistribution and reduction in income inequality (Kemal, 2006).

## Inside The Nationalized BECO

**Profits Became Losses - The accounts gimmickry:** The profits were forcibly tapered to show a balance sheet (1971) declaring an income tax liability of 7 million PKR to present a dismal reflection of the company. In 1972, the new managing director slashed the profits by a mammoth of 21 million PKR, the first official corruption in BECO by the bureaucrat who later left the country to settle in the States.

**Nationalization of Shares:** Through the Ordinance, the shares of the nationalized units were also nationalized on August 31, 1973 by offering shareholders compensation equivalent to one and a half times less than the market value.

**Transfer Management Ordinance 1978 - The Two Decades of Unsuccessful Struggle Continues:** CM Latif met with Zia-ul-Haq and Finance Minister in 1978. The conversation reflects the government's focus on revenue through taxes instead of prioritizing growth. Looking at hindsight, even today this mere objective of revenue collection has not served its purpose (Haque, 2019).

In 1988, CM Latif again requested Zia-ul-Haq to return BECO to its original management as per the Transfer Management Ordinance 1978, citing the precedents of Ittifaq Ltd. and Karimi Industries Ltd., but in vain.



In 1987 and 1988, the founder of the company wrote extensively in newspapers to attract the government's attention towards the state of affairs in BECO-PECO, but was of no use. The 1992-1993 yearbooks reflected severe mismanagement and disruptions by the government. The yearbook 1992 referred to the board of directors, which was non-existent. The malicious act of the government to get votes to sell off the Badami Bagh works and the surplus land in Kot Lakhput Works shows that the industrialists not only lost their units to the nationalization policy, in fact, they also lost the spirit of investing in Pakistan (Suleman, 2017).

Desperate CM Latif's case against the government in 1994 had only four hearings, showing judicial failure to serve the deserving. This judicial hide and seek continued till the Punjab government issued the No Objection Certificate to allow PECO to sell its assets. Finally, the incessant struggle for BECO died with the death of CM Latif in 2004.

## Key Takeaways from the History of BECO

### The Early Year Policies - Setting the Course of Future Industrialization

Since its creation, industrial policymaking in Pakistan has primarily been subjected to either crisis management or some medium-term development programs (Burki, 2008). During privatization, the government ensured its footprint in industrial management. Similarly, publicly owned development finance corporations such as PICIC and IDBP were developed to support industrialization as conceived in 1949, paving another channel for government footprints. The foundation of the industrial sector laid by the end of the 1950s resulted in the rapid expansion of large-scale manufacturing (Qadir, 2016). Agricultural growth lagged behind the population growth rate. The late 1960s witnessed the flow of huge resources to a handful of industrialists resulting in 22 family sagas. The liberalization policies are nugatory in spurring investment and growth (Gardezi, 1983). The capital intensive large-scale manufacturing was favored through export bonus vouchers, restrictive imports, export controls on agricultural output, and conditional subsidies based on output performance. After the partition, India encouraged the establishment of heavy industry in the industrial sector (Burki, 2008). Pakistan, on the contrary, has invigorated consumer goods industries. When Bhutto in the 1970s tried to follow this Indian approach, it resulted in the introduction of several distortions in the management of the economy and widespread corruption that have continued to bedevil the country to date (Burki, 2008). During the Ayub regime, the publicly owned development finance corporations, PICIC and IDBP were developed through funding from World Bank to support industrialization as conceived in 1949. This policy has had serious consequences. It resulted in the mushroom growth of spinning mills with a sub-optimal scale. These corporations have paved another channel for government involvement. The 1990s were also deprived of technological advancement and innovation, although the deletion policy was a component of industrial policy (Saeed, 2005). The deletion policy aims to achieve self-reliance in the engineering sector and to promote technology transfer (Hussain & Ahmed, 2012). The small and medium enterprise Development Authority (SMEDA) was established with a mandate to guide entrepreneurs regarding new technologies, new product lines, improved management practices, and marketing of their products. Subsequently, privatization and deregulation accelerated and the economy opened up. The tariff adjustment led to the establishment of large-scale industries such as automobile and electronic goods. Despite the conducive policies, the private sector could not penetrate into the global economy and missed many opportunities. Burki (2008) believes that the lack of professionalism of the heads of the regulatory bodies of industrial development hindered growth.

## Import Policy

Aiming to industrialize Pakistan, BECO was producing diversified products in metal engineering. For every new venture, BECO would ensure that the demand was forecasted carefully, the raw material was in stock and the best technical and human resources were lined up. Still, the gravest challenge to the units was the idle capacity of more than half of the total potential. The growth of different sectors of the economy had different requirements to be met. A holistic approach interlinking and building upon all the sectors to propel the growth of a newborn country was the need of the hour. In the absence of an indigenous holistic industrial policy, the preferential gesture of the government agencies was to embark upon import to fulfil their requirements instead of buying from local industry. The initial

short-term approach of the policymakers to handle the deep-rooted long-run challenges had set the course of the country, leading towards off-tracking the national policy arena and ending up corroding the industrial base of the country. The history of BECO elaborates on this point with various examples. For instance, the local firms were not allowed to bid for WAPDA Project II and the Indus Basin Projects implying that the tenders were neither indigenous-industry friendly nor designed to generate businesses for the local industry.

## Undue Delays in the Issuance of Licenses and Permits

The history of BECO points out how the undue delays in decision-making and issuance of permissions by the government hampered local business transactions in the early years. In general, the uncertainty caused due to permit delays has enormous consequences for businesses. The cash remains unproductive and the large initial investments remain uncertain. In the case of heavy machinery, the installation without use scraps the machinery. Another example was that of a mini steel mill designed for 100,000 tons of steel billets. BECO had made arrangements for the early implementation and acquisition of raw materials. However, the approval was subject to the holding of the next CIPCOC meeting. There was no systematic prior schedule of meetings announced by the sanctioning authority. It was only *expected* after general elections without considering the economic cost of such delays and ill features of the permit economy. Unfortunately, the mini-mill was not materialized after nationalization.

## Conclusion

Once a magnificent emblem of national pride and glory, BECO turned into an industrial graveyard. This empirical evidence signifies how the national policies prepared out of political interests rather than strict cost-benefit analysis criteria and without due diligence, can easily demolish success stories like BECO, aside from disincentivising the efforts of entrepreneurs like C.M Latif. The national tragedy lies in the very fact that the same practices are being observed today to serve the self-interests of a handful of politicians and policymakers at the colossal cost of national development. One reflection of this colossal cost comes in the form of Pakistan transitioning into a net importer of manufactured goods facing competition both in international and domestic markets, with an overall stagnation and low productivity observed in the sector. We believe that this would not have been the case, at least not this difficult situation for Pakistan if companies like BECO were allowed to function unfettered and the policy of nationalization had not been implemented!

Pakistan's policymakers need to be cognizant of the fact that Industrial policy plays a crucial role in guiding the domestic industry towards advancing on the technology or sophistication ladder. The need of the hour is to facilitate the commercial entities to grow to play their role in the economic development of their country through a technology-oriented industrial policy, with the public sector playing the role of a facilitator rather than a manager of commercial entities. The government should reduce its footprints in the commercial entities to let them grow organically in a productivity driven conducive environment. It should formulate its policies to facilitate commercial entities for economic growth, giving due consideration to the nation's ideology above the priorities of the authorities.

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