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Revival of industrialisation

There is need to revive industrialisation in Pakistan. The key focus of this revival process should be job creation and value addition. We refer to some literature (Pakistan Business Council 2018, Burki 2008, World Bank 2014, Punjab Growth Strategy 2015) in this article.

There are both kinds of arguments in the literature: those who advocate that manufacturing carries bulk of taxation burden that is disproportionate to its share in GDP; and those who argue that Pakistan's entrepreneurs lack capability to utilise expansion in business opportunities such as those offered by the end of the Multi-fibre Arrangement (MFA) in 2005, and possibly others.

In terms of taxation, manufacturing represents over 13 percent of GDP, yet it carries 58 percent of the taxation burden. This is so because it is easy to tax formal manufacturing sector than to tax wholesale, retail and the agricultural sector that together contribute less than two percent of taxes, despite services being the largest contributor to GDP.

The new industrial policy should be decentralised, so that every province can achieve outcomes to its comparative advantage. In other words, there should not be one industrial policy but five: one for the federal government and four for the respective provinces. In Punjab, the focus should be to develop small and medium industries by focusing on food processing and light engineering. Sindh should take advantage of large industries, mainly based in Karachi. This comparative advantage approach would help the industries achieve competitive expertise and economies of scale.

From the job creation point of view, it is important that the new industrial policy should also focus to develop small and medium enterprises (SMEs). According to one estimate, SMEs represent nearly 90 percent of total enterprises in the country and employ close to 80 percent of non-agricultural workers. However, they are constrained by human, financial and technical resources. The Small and Medium Enterprise Development Authority (Smeda) also needs to effectively build capacity in research and development (R&D), in collaboration with the private sector.

The textiles sector in Pakistan lacks effective value addition. Pakistan mainly exports cotton and yarn which others convert into garments. There is a need to expand the manufacturing base in ready-made garments. It offers the advantages that Pakistan needs. It is highly labour intensive (so it would lead to job creation), demands moderate amounts of power, and leads to high value-added exports. It also offers prospects to utilise urbanisation-focused agglomeration economies. Yet, the garments sector in Pakistan has been performing below its potential that is illustrative of constraints faced by manufacturing sector as a whole in Pakistan.

The job creation benefits of garments can be gauged by the fact 50,000 kilograms of fibre only generates 400 jobs in spinning, weaving, and finishing phases of textiles production; however, the same amount of cotton fibre creates 1,600 jobs in manufacturing ready-made garments. It is also less capital-intensive. Energy costs are only two to three percent of total production costs. Its exports earnings capacity can be gauged by the fact that according to an estimate, $1 million capitalised in spinning and weaving would earn $0.27 million in exports earnings, while the same amount would generate $3.2 million worth of exports in garments. Therefore, a focus on garments can go a long way in resolving Pakistan's balance of payment issues.

China, that is leading garments manufacturing, is expected to gradually exit from garment trade in the world due to the increasing cost of labour. Therefore, it offers a good opportunity for Pakistan to capitalise on this opportunity. For garment manufacturing, it is important to develop industrial clusters and special economic zones, as it would help provide better market connectivity and improved infrastructure.

For agglomeration economies, there is a need to enable cities as engines of growth. Urban areas both attract investment and also create jobs. There is a need to increase investment in urban areas, including investment of the private sector; investment is needed to deal with shortage of infrastructure, housing and public services. There is also need to invest in public transportation and mass transit to enable the poor a convenient way to travel. Similarly, investment in public health, drinking water, sanitation and solid waste management is also needed. In this regard, massive CPEC investment is welcome, though the bulk of it is focused to regenerate the energy sector.

Literature also points out that special economic zones and industrial parks established as the result of CPEC should be equally open to Pakistani enterprises as much as they are to the Chinese. The governments of Pakistan and China should offer the same terms of trade to firms of both countries to provide a level playing field. Similarly, incentives being provided to the Chinese companies should also be available to their Pakistani counterparts.

There is a need to revive the manufacturing in Pakistan and it should be done in a way that it boosts the areas and sectors where Pakistan has a comparative advantage – such as garments. Pakistan should also focus to regenerate cities as engines of growth, boost public infrastructure and services to achieve agglomeration economies. Economic development and social development are intricately linked.

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