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Money Matters
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On the back-burner

When Pakistan will have the long-awaited and much-delayed National Industrial Policy? All the stakeholders have been asking this question, time and again, for decades, but none of the successive governments has ever answered it.

Indeed, past regimes have lacked an earnest political will and commitment, and unfortunately, on the face of it, the present government is no exception.

It is indeed heartening that Pakistan has improved its ranking, from last year's 136 to current 108, in the World Bank's Ease of Doing Business index. But measuring performance through indicators like this one will not necessarily result either in attaining industrial revival or attracting the much-needed investment. Given the prevalent conditions of decline in Large Scale Manufacturing (LSM) sector and decreasing Foreign Direct Investment (FDI) a lot more has to be done by the government, and expeditiously too.

One of the key elements is the formulation and implementation of an integrated and dynamic National Industrial Policy, which is critically important for achieving an all-round industrial and economic progress. Sadly, the nation remains without an integrated national industrial policy for almost three decades. In the 1990s a draft of the policy was finalised by the Ministry of Industries & Production but remained in cold storage for long. Efforts were then made by the government to launch such a policy in 2007, and again in 2011, but without any success.

The proposed policies never took effect and were blocked by the vested interests operating in trade and industry. The government however introduced, from time to time, sector-specific policies drafted by those motivated by special interests. The recent applicable policies are Fertiliser Policy 2001, SME Policy 2007 (SME Policy 2019 is on cards), and Auto Development Policy 2016-21. Thus, only a few favoured industries flourished at the cost of others.

In the backdrop of the Pakistan Tehreek-e-Insaf (PTI) election manifesto 2018, it was expected that formulation of a national industrial policy would be among the priority areas of the government. Razak Dawood, Adviser to the Prime Minister on Industries & Production, had stated in December 2018 that a comprehensive industrial policy was being prepared that would be announced in June 2019. Alas, it is nowhere to be seen as yet, and not even the policy draft is in sight so far. Perhaps, the same vested interests are active again, and formation of an integrated industrial policy remains on the back-burner, like in the past.

Growth in the industrial sector in the last fiscal year 2018-19 slowed down to 1.4 percent, the lowest in six years, from 4.9 percent achieved in 2017-18, according to the State Bank of Pakistan, which is mainly traced to a decline in Large Scale Manufacturing (LSM) sector and construction. For the first time in ten years, growth of the LSM sector, which dominates the overall industrial sector, has suffered contraction in 2018-19 to over 3.6 percent, compared to the previous year.

All major segments, such as petroleum, chemicals, cement, automobile, steel, and pharmaceuticals, showed lackluster performance, recording reduction in output, and resultantly low profitability, due to a variety of factors. In spite of several policy measures taken by the government in the recent months to jump-start the manufacturing sector, a revival in the LSM is yet to be seen.

The LSM sector output decreased by 1.71 percent in July-September period of the current fiscal year compared to the corresponding period of previous year. This is in stark contrast to the government's target growth of 3.1 percent for the year 2019-20. On the other hand, the FDI decreased to $542.1 million in the first quarter of current fiscal year (July-September 2019) compared to $559.4 million in the last year's corresponding period, registering a negative growth of over 3 percent. During the same period (July-September 2019) total exports registered a nominal growth of 2.75 percent, from $5.374 billion (corresponding period a year ago) to $5.522 billion.

The LSM sector constitutes 80 percent of the manufacturing base, and contributes about 11 percent to overall GDP (gross domestic product). At present, the industry is generally characterised by low productivity, low value-addition and non-competitiveness.

Major constraints are high cost of production, expensive electricity, lack of plant and technological up-gradation, and non-adherence to quality control standards. Devaluation of rupee and higher rate of interest have also severely impacted the financial cost, production cost, and competitiveness.

Thus, formulation and implementation of a comprehensive, dynamic, and pragmatic National Industrial Policy, with a futuristic approach, is the proverbial need of the hour to accelerate the economic activity through achieving industrial growth in near future. It is imperative that the policy is focused on strengthening, expanding, and diversifying the ailing manufacturing base, adopting measures for increasing productivity and marketing in various industrial sub-sectors. The broad-based policy should absorb the sector-specific industrial policies in vogue, and also integrate it with the provincial policies such as Khyber Pakhtunkhwa Industrial Policy 2016 and Punjab Industrial Policy 2018.

The policy needs to extending support for product designing, product value-addition, and adherence to quality conforming to international standards. This will help achieve global competitiveness and enhance and sustain national exports. One of the main features of the Policy should be sector-specific reforms in a long-term perspective for four key industries namely automobiles, fertilisers, chemicals, capital goods, and steel. Industrial economics of today use inputs and raw materials from both agriculture and industrial sectors in the most efficient ways for producing finished consumer and industrial goods.

The policy should aim at optimising the import substitution by offering fiscal and financial incentives to local manufacturing units, and to discourage imports of finished goods. Imports include machinery and equipment, chemicals, auto parts, mobile phones, laptops/PCs and other items, whereas domestic industry has the potential to produce many of these products progressively.

Effective management of the policy should create an enabling environment for encouraging innovations and developing new ideas in a wide range of industrial sub-sectors. Manufacturing sector, which currently employs over six million, should serve as a catalytst for creating and sustaining additional jobs for professionals as well as skilled workers.

State Bank of Pakistan's Annual Report 2018-19 (State of the Economy), while discussing the decline in the industrial output, exports and FDI, emphasises that: Putting in place a coherent industrial policy should be among the immediate priorities.

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