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Editorial

Industrialisation a top priority

Prime Minister Imran Khan, while speaking at the ceremony to distribute tax refund cheques, stated that continuity of policies is critical for sustainable development and the government is striving to promote industrialisation, wealth creation and tax culture to place the economy on the path to sustainable growth. These objectives must be unreservedly supported by all social strata of the country because if achieved they contain the seeds of sustainable development.

Industrialisation in Pakistan today suffers from three major factors that have been prevalent in the country for decades. First and foremost, industrialisation in the country remains largely limited to consumer items, with low value-addition, susceptible to market conditions, domestically and internationally, for price fluctuations. During a recession, global and/or domestic, demand declines, and with it the volume of sales, while during a boom demand may pick up but the price would be depressed. Additionally, our exports consist of products that are surplus to domestic needs and hence what is required is an export-oriented industry that is totally geared towards exports. Successful export promotion policies have led to high growth rates in many countries, including Japan and China.

The economic team leaders, Dr Hafeez Sheikh Adviser to the Prime Minister on Finance and Dr Reza Baqir, Governor State Bank of Pakistan (SBP), recently announced incentives to exporters which must be appreciated and include: (i) 300 billion rupee credit to exporters – 100 billion rupees from SBP profits and 200 billion rupees from commercial banks with the interest to be picked up by the government. Dr Baqir announced that the interest charged would be 3 percent under the refinance scheme; (ii) cash refunds of 30 billion rupees would be released and the refund cheque distribution ceremony bears proof that the government delivered on this pledge; and (iii) allowing authorised dealers to effect advance payment of up to 10,000 dollars on behalf of manufacturing concerns for import of raw materials and spare-parts for their own use only as well as for Pakistani firms acquiring services from abroad.

However, some policy measures that may detract from the effectiveness of these measures include an undervalued rupee (to the tune of 6 percent as per SBP which makes imports of basic and intermediate raw materials more expensive relative to regional countries), and 13.25 percent discount rate which would act as a deterrent to non-export-oriented industry which brings one to the second major lacuna in the way of industrialisation in the country – lack of a development finance institution with the sole responsibility of lending for industrial development. True that care has to be taken to ensure that a DFI does not go the route of its predecessors, namely lending on the basis of nepotism or political influence; however, there is a need to set up such an institution on the same pattern as say in China or India.

Finally, the Prime Minister must be aware that Pakistan has no industrialisation policy and it is time he tasked the relevant ministry to formulate one. He has already laid the ground work by approving the first-ever National Tariff Policy whereby tariffs would no longer be employed as revenue generation measures but instead reflect the requirements of industrial development and export growth.

To conclude, industrialisation is the way forward and one would hope that its pace is strengthened and fully supported by appropriate government policies.