

Industry seeks govt support for growth

When Asad Umar quit the corporate sector to join politics in 2012, he told reporters that Pakistani businesses operated in an “Islamabad-controlled, rent-seeking economy.”

Two governments, three prime ministers and eight years later, there’s little ‘change’ in the state of the economy, although Umar is now the government’s point man for economic development in Islamabad.

In 2020, the industry continues to look towards Islamabad for patronage in the shape of concessions, subsidies and SROs. Some demand favours to enhance export earnings while others point out the need to placate foreign investors. Some demand subsidies for the sake of farmers, others seek handouts in the name of unskilled workers.

They love government intervention only when it suits them. Subsidised electricity and gas for industrialists are good, but price checks on medicines aren’t. Merchant energy markets are welcome, but so are capacity payments. Taxes are bad, but taxpayer-funded public-sector projects aren’t as long as they lift the profits of cement makers.

Speaking about his years in the private sector, Umar had said that instead of running his corporation, he’d end up spending most of his time badgering the powers that be in Islamabad. Now that the shoe is on the other foot, he and his fellow ministers should try to discourage the kind of rent-seeking that he set out to eliminate eight long years ago.

Shahid Sattar**Executive Director, Aptma**

The investment outlook seems bright for the textile sector in 2020. The new textile policy focusing on growth and innovation is about to be announced. The textile sector is willing to invest in manufacturing infrastructure and upgrade production units to deliver on the aim of enhanced exports with the government’s determination to reduce the cost of doing business and eradicate bottlenecks in the policy implementation. The textile sector envisions an increase in textile exports from \$13.33bn (2018-19) to \$50bn (2029-30) with an additional cumulative investment of \$29.54bn in the next ten years.

To achieve the targeted exports, business-friendly policies should be ensured for the industry to grow and attain the increased targets on a yearly basis. There is a will and potential in the textile industry to play its role in the economic turnaround. The value-added garment sector has a huge capacity to grow along with synthetic clothing since the world market for these fibres is enormously increasing as consumer preferences shift away from natural fibres like cotton.

‘Ensuring the revival of zero-rating for export sectors, long-term tariff policy for raw material imports, rationalisation of regulatory duties, efficient system of refunds to improve liquidity, reduction in turnover tax and the availability of credit facilitation schemes to indirect exporters is necessary for growing investments’

However, there are a few policy impediments. Correcting them will further facilitate export-based industries. These include the revival of zero-rating for export sectors, long-term tariff policy for raw material imports, rationalisation of regulatory duties on imports of synthetic yarns, efficient system of refunds to improve liquidity, reduction in the turnover tax to one per cent and the availability of credit facilitation schemes like the long-term financing facility and the duty and tax remission scheme to indirect exporters.

Dr Fatima Khushnud
CEO, IPP Association



The power sector will see ample investment in 2020 on the back of the Thar coalfield, implementation of previous letters of intent for wind power (Renewable Policy 2006) and reduction in the institutional risk owing to the auto-indexation policy from the National Electric Power Regulatory Authority (Neptra).

Furthermore, the transmission and distribution sector will also see investment because of the digitisation of grid and foreign lender–supported transmission installation projects.

Overall, the power sector needs to shift its focus from generation towards the value-chain enhancement. Under such an environment, greenfield investors can achieve good returns by participating in the upcoming bids for transmission and distribution digitisation projects. Moreover, the privatisation of LNG power plants will provide ample opportunities for investing in low-risk, mature projects.

Investments in the upcoming year will face friction owing to the absence of: long-term finance, policy framework for repowering, decommissioning policy, overhauling and hybridisation. Furthermore, there is a constant threat of ballooning circular debt, which challenges the financial

viability of the power sector. Such an unstable environment has already been exacerbated by politically motivated witch-hunts of established investors leading to higher risk premiums and a lukewarm response from foreign investors.

It's time for the sector to implement much-needed structural reforms that prioritise the debilitated state of transmission and distribution. The privatisation of distribution companies (Discos) is the need of the hour. Unless the leakages within Discos are fixed, the energy basket price is reduced and the transmission network is upgraded, the energy value chain will never be able to come out of the circular debt menace.

On another note, demand creation is the key to bringing our basket price down (economies of scale). Currently, our industry is using captive power. We need to come up with lucrative measures to bring the industry back to the national grid. This is only possible if we lower our basket price and ensure system reliability. It is pertinent to mention that any increase in tariffs sways industrial customers away from the national grid — the industry moved to captive power when electricity shortages were high. The electricity cost in Pakistan is already higher than regional competitors. With a further increase, industrial competitiveness will erode, adversely affecting our economic growth in general and exports' growth in particular.

In essence, demand creation and lowering the basket price is inevitable. Moreover, structural reforms need to provide guidelines on: institutional reforms, digitisation targets for the transmission and distribution sector and improvement in collection rates for certain Discos. Needless to say, investment friction can also be alleviated by fast-tracking the development of the merchant market and multiple-buyer model.

Brig (R)

Sher Shah Malik

Executive Director, FMPAC



Pakistan had rightly developed its indigenous fertiliser industry to support the agriculture sector. The fertiliser industry was set up to reduce reliance on imports and ensure its food security.

Thus, we have 7m tonnes of urea production capacity against the optimum demand of 6m tonnes. Diammonium phosphate (DAP) is the second major fertiliser manufactured locally to partially meet the national requirement.

The fertiliser industry faces a major sustainability challenge owing to fast-depleting natural gas resources while LNG is not a cost-effective option for urea production.

Gas prices have also seen a sharp rise during the past one year, thus raising the cost of production. Besides, the gas infrastructure development levy is also haunting the industry. Hence, the affordability and availability of gas remain a major challenge for the industry.

The fertiliser sector, through existing fertiliser policy, received a subsidy of Rs180bn during the past 10 years on account of a lower price of gas while the benefit passed on to farmers was over Rs600bn. Thus, the arrangements have worked in a most cost-effective manner.

The option of a direct subsidy to the farmers by the Punjab government has not yielded much relief owing to the complexity involved. In the regional and global context, subsidised gas to the industry has been the most successful way of benefiting the farmers.

The availability of gas in the form of RLNG is not a viable option owing to the volatility of price and a high cost of production. In order to preserve national self-sufficiency in urea, thus ensuring food security and agricultural development, the government must upgrade the fertiliser sector to the second position on the gas allocation priority list.

Furthermore, in view of fast-depleting natural gas resources, the coal gasification option should be pursued seriously to sustain the indigenous urea production at affordable rates by ensuring the sustainability of the fertiliser industry.

Azizullah Goheer
Secretary General, PTEA



Textile is the most significant manufacturing sector with the longest production chain and inherent potential for value addition at each stage from cotton to ginning, spinning, weaving/knitting, dyeing/finishing, made-ups and garments. The global apparel market is worth \$1.7 trillion, amounting to 2pc of the world's GDP.

The worldwide apparel market is predicted to touch \$2.6tr in 2025 with the annual growth projection of 4pc. China will be No. 1 apparel market with \$378bn in 2025 followed by India with \$121bn. There are big opportunities for Pakistan's textile sector to increase its share in the global textile trade.

No doubt, the textile industry is facing issues, which should be dealt with promptly. Impediments like stuck-up liquidity, high-priced energy inputs and the imposition of duties and taxes on inputs/raw materials have hurt growth. However, with the better utilisation of resources and support from the government, the textile sector can grab more business in 2020.

Ayesha Tammy Haq
Executive Director,
Pharma Bureau



With the right policies and commitment from the government to follow the same, 2020 can be an excellent year for the pharmaceutical industry. It has tremendous growth potential and, if allowed, can generate thousands of jobs and increase exports from just \$160m to \$1bn within five years.

The key impediments to growth are a lack of coherent policies. Even where a policy exists, as in the case of pricing, it is not followed. This sector, while being a vital industry, is not treated like an industry. It is subject to excessive price controls, which render many low-priced drugs unviable to manufacture.

There are over 700 pharmaceutical units in Pakistan and a great majority of them are under-utilised or lying idle. Contract manufacturing should be allowed and encouraged to ensure the upgrade and use of existing under-utilised facilities, create jobs and increase exports. Results will be almost immediate.

Farid Noor Ali Fazal
Senior Vice Chairman,
APCMA



The cement industry is sitting on a huge unutilised capacity. It will despatch just over 47m tonnes this year at the current rate against the installed capacity of 59.65m tonnes.

This situation will not trigger any investment and expansion and employment in the sector will gradually decrease. The government should start work on the Public Sector Development Programme and announced housing projects, which will boost the construction sector and create job opportunities for skilled and unskilled labour.