

## **Resource potential and production”-**

### **Industrial Problems**

#### **Energy crisis**

Industry has virtually held hostage by the energy crisis. The country faces an energy emergency. Gas load shedding has become a routine in major industrial cities of the country. The officials have projected a gas shortfall of 10.34 billion cubic feet per day by financial year 2015. The country's demand for energy, according to one estimate, is expected to rise at the rate of 10-12 percent annually in the foreseeable future, which means that if this rate of increase continues, demand for energy may well double before 2015. The acute energy crisis has virtually suffocated the industry, causing widespread discontentment in the business circles. This could result in closure of more industrial units and increase in the unemployment rate in the war-torn country. The country is losing at least 2 percent of the GDP growth annually due to the power shortages.

The liabilities to the entire energy chain or circular debt continued to increase in the absence of any plan for power sector reforms. The circular debt has now reached Rs400 billion mark. The circular debt problem emerged due to difference between production cost of electricity and the tariff charged from consumers, which forced the government to provide subsidy. The government failed to bridge the gap in power production costs and the money paid by utility consumers. Higher cost of furnace oil forced the government to raise power tariff, but the consumer tariff is still believed to be less than the cost of power. The expensive power particularly for commercial and industrial sectors will further fuel the inflation pushing more people into extreme poverty in the country. Despite efforts to encourage efficient utilization of energy resources, the technical, financial, and operational efficiency of the power sector has continued to deteriorate resulting in costly yet unreliable power supply.

#### **Interest Rate**

Under IMF pressure, the government maintained one of the world's highest benchmark interest rates, in an economy hurt by terrorism and falling foreign investment. The high interest rate has been one of the major reasons behind the fall in the country's industrial output. During the five-year tenure of the former government of Pakistan People's Party (PPP), the real gross domestic

product (GDP) growth averaged at 3 percent against the required rate of 7 percent, according to the Economic Survey of Pakistan for the fiscal year 2013-14.

### **Poor governance**

The quality of governance is essential for the development of human resources for industrial growth. The good governance ensures the transparency, efficiency and rationality in the utilization of public funds and national resources, encourages growth of the private sector, promotes effective delivery of public services and helps establish the rule of law. There is a strong correlation between per capita income and indicators of human development such as adult literacy, life expectancy, infant mortality, political and civil rights.

### **Security concerns**

Today, security is No.1 issue and the primary reason raising concern among the foreign firms that have already invested in the country. The country direly needs overseas investment to bolster industrialization process. The rising violence would not only hamper the Islamabad's efforts to attract foreign investment but also hit industrialization in the country. It will also force the foreign firms to quit their operations in the country. The country's industry and exports are worst hit by the unsatisfactory security situation in Karachi, the country's industrial hub. Extortionists, target killers and dacoits have turned the country's business hub into a crime hub. The law and order problem in Karachi has affected the business and industrial activities causing a slump in overall economic growth. The local businessmen have to pay money to the extortionists to run their businesses in Karachi. Many businessmen and industrialists have been killed for not paying the extortion money and many have moved their manufacturing units abroad. But recently there are some positive outcome as the law enforcement agencies have come out new tactics to tackle the situation and had number of culprits killed and arrested. One can still hope and look forward to normalcy.

### **Lack of Diversification**

A broad based industrial sector is essential for exploiting the opportunities offered by globalization, but Pakistan's industrial structure lacks diversification. Furthermore, Pakistan has not been able to develop a strong capital goods sector.

## **The Role of the Public Sector**

Though the role of the public sector has been drastically curtailed as a result of deregulation and privatization policies, some industries continue to be dominated by state owned enterprises. Some of these enterprises produce primary raw materials and intermediate inputs and as a result the inefficiencies of the public sector have an adverse impact on downstream industries.

## **Regulatory and Legal Environment**

Though Pakistan has strived to improve the overall business climate and accordingly her ranking in terms of de-regulation has improved, weaknesses still remain in the regulatory and legal framework. Businessmen still have to comply with a host of regulations relating to the work environment including health and sanitation, product standards, taxation, etc.

## **Financial System**

A well-functioning financial system is essential for industrial development and growth because it efficiently channels investible funds to the most productive uses. A series of measures adopted in recent years have led to improvements in the financial system but the spread between the deposit and lending rate is still unacceptably high. Better appraisal and the strict implementation of prudential regulations seem to have resulted in lower infected portfolios of the banks, but so far have not resulted in a low spread.

## **Foreign Exchange Market**

Pakistan is following a system of floating exchange rates. However, the State Bank of Pakistan intervenes and does not allow market forces to operate. For example, the inflation rate for a second year is running at around 9 percent but the par value of the rupee to the dollar has not changed. While the lower value of the dollar against the rupee keeps down the cost of imports and promotes investment it also hurts exports. Since exports have been one of the major contributory factors to the growth process, a proper exchange rate assumes great significance.

## **Weak Infrastructure**

Weak physical infrastructure has been a major factor hindering the performance of the manufacturing sector. Whereas the lack of repair and maintenance has resulted in the deterioration of physical infrastructure, inefficiencies in the public sector utilities have

contributed to high costs of production, thus eroding the competitiveness of domestic manufacturers.

### **Telecommunication Services**

Though the quality of telecommunications has improved in recent years, there is still room for further progress in terms of improvement in efficiency and expansion of fixed line connections. The privatization of PTCL and competition in wireless and mobile telephones has improved the situation significantly.

### **Transport**

An efficient transport network is vital for economic development. In Pakistan, the transport sector is incurring heavy asset losses due to the inadequate maintenance of existing facilities. The unsatisfactory state of the transportation network has imposed enormous costs on the economy: according to a recent estimate, inefficiency in transport alone is reckoned to cost the economy Rs.320 billion a year.

### **Human Resource Development**

Pakistan is deficient in the skilled human resources that are vital for technological advancement. More specifically, the quality of scientific manpower produced in the educational institutions is poor due to a number of factors including a lack of highly qualified professional teaching staff. Moreover, because of higher returns elsewhere the best students are not opting to pursue careers in science and technology.

### **Science and technology**

In a rapidly changing international economic environment, science and technology is vital for sustaining the development momentum. Unfortunately, the state of science and technology has been far less satisfactory in Pakistan as compared with other emerging economies. Pakistan lacks strong engineering foundations and the loss of qualified personnel has further hindered the development of the country's technological base.