

Industrial development

Industrial development is crucial for development and exports promotion. This article refers to some literature (Ahmed et al. 2015, Sánchez-Triana et al. 2014) in this article to review issues of industrial development.

The government plans pin high hopes on the industrial development. However, the industry in Pakistan has not proven to be the driver of economic growth and higher productivity-oriented employment. The uneven economic growth patterns have had adverse impact on favourable outcomes for the growth of industry.

Industry adds the highest value addition in the production processes, yet its share of total employment in Pakistan is lowest at around 20 percent. Less than optimal industrial growth patterns are linked to the macroeconomic framework that is tilted towards promoting consumption rather than investment in manufacturing. The appreciated exchange rate equilibrium further fuels growth based on consumption. It is illustrated by the fact that in the recent past, the financial institutions in the country focused on providing personal loans rather than the manufacturing sector loans.

The industrial development is critical to boost exports and to help plug the current account deficit. Manufacturing contributes 80 percent to total exports of Pakistan. The top five manufacturing sectors account for more than 70 percent of exports overall volume. One of the critical top five sectors, textiles and garments' share has been declining in the recent past, whereas the share of small and medium enterprise (SME) manufacturing and cement exports, amongst others, has gone up. Despite the decline in the textiles and garments share, it still accounts for more than half of exports of Pakistan. Therefore, exports growth policy cannot plan for increasing the total exports of Pakistan in the medium term, unless it provides for a higher growth of the textiles and garments exports.

One of the challenges is low value addition in the textiles and garments sector. Pakistan is the second largest cotton yarn exporter in the world for the low and medium count yarn, yet there is not much value addition during the spinning phase. Initially, spinning and weaving of cotton were central in driving exports, investment and employment in the manufacturing sector. However, this initial success became an impediment later on since it restricted import of manmade fibers (MMF) or a cotton-MMF mixture. Both of them are required to increase exports

in the textiles and garments sector. Due to this restriction, Pakistani exporters in the textiles and garments only part of a small portion of the world exports in this sector.

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The prevalent government policies also favour low value addition in the textiles and garments sector. There is a need for an alternative export policy focused on the higher value addition that would both impose duty on export of low count yarn as well as remove import barriers for MMF fibers, fabrics and yarns. As a result of this perverse incentive structure, Pakistan's share of higher value-added textiles and garments has decreased and lower value added cotton yarn and fabric has increased. Pakistan's exports in the garments sector are overly dependent on medium count cotton yarn and fabric and therefore produce only limited range of products. The textiles sector and government bureaucrats' nexus is strong in perpetuating the vested interests of the cotton-oriented production lobby and this nexus prevents formulation and implementation of policies that would diversify to MMF fibers and fabric.

Other than the need to add value to the textiles and garments sector, other medium-term drivers of exports are SME production, agricultural products such as the cotton and rice, and other higher value products of the agriculture sector. Other factors that provide the enabling environment for increasing exports such as infrastructure development and improving the regulatory system in the country also needs to be focused on.

In terms of the regulatory framework (covered in literature other than cited above), there is also the need to both focus on the need for higher productivity of labour as well as to ensure their occupational health and safety. In terms of higher labour productivity, skills development and a focus on human development is crucial. For occupational health and safety, better regulation of safety standards in agriculture, construction, garments, ship breaking and coalmines, amongst others, are needed. Shipping can be hazardous and better freight facilities need to be provided.

Similarly, there is need to promote establishment of industrial clusters as backward and forward linkages of the industrial clusters to the production processes play a key part in boosting productivity. A conducive environment for innovation also needs to be promoted to improve production, quality and designs. Manufacturing in the industrial clusters is intrinsically linked to

offer product innovation. A survey of 400 manufacturing units revealed that a unit's presence in the industrial cluster increases the probability of it offering new production processes and products.

SME sector has major potential as it employs 80 percent of the non-agricultural labour force, contributes 40 percent to the country's GDP and accounts for 25 percent of exports in the manufacturing sector. However, 87 percent of SMEs have five or less than five employees per unit. Small size of the units poses a challenge in terms of their access to markets for inputs of raw material and output. SMEs also often lack infrastructure and skilled workers. Given its immense potential, there is need to enhance productivity in the SME sector. The literature recommends to restructure the SMEDA for this purpose.

Promotion of industrialization in Pakistan also needs to be viewed through the prism of social and environmental sustainability. Cleaner and socially compliant production processes have a higher chance of creating a niche in the market. Social and environmental standards must be made part of the production processes and the capacity of relevant government departments and ministries must be strengthened for this purpose.