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# Political Economy and the Development of the Industrial Sector: A study on Pakistan's Economy

(Analyzing the Political Challenges and influencing the industrial and economic Policy)

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## Abstract

Pakistan is a country that has been rapidly developing since its independence in 1947. It has seen a great deal of economic growth and has become a major player in the global economy. However, the country is still facing a number of challenges in terms of industrial policy and political economy.

Currently, Pakistan's industrial sector is falling. One of the causes is the absence of a constant industrial policy that makes sense, which appears to be the product of an overall economic strategy that has lacked continuity and coherence. As a result, Pakistan's economic potential was severely underutilized, which in turn had a particularly negative impact on common people. Industrial policy and political and environmental upgrading must go hand in hand with economic policy; if one is absent, the other suffers.

This research is the first, albeit fragmentary, attempt to draw attention to this significant connection. It gives an overview of economic policy's major facets and experiences, including industrial policy, and outlines some regulatory frameworks under which they function. It also briefly explains how it relates to the political growth of the nation before offering some recommendations for bettering policies.

This Study analyzes the state of industrial policy and the political economy of Pakistan, focusing on the policies and strategies that are currently in place, as well as the areas in which further development is needed. It begins by providing an overview of the industrial policy of Pakistan, including its history, current state, and the trends that have emerged over time. It then examines the political economy of Pakistan and its implications for industrial policy. Finally, it discusses the challenges and opportunities presented by the current industrial policy and political economy of Pakistan. The study concludes by suggesting potential areas for future research and policy reform.



**Keywords:** Political Economy, GDP, Industrial Policy, Reforms, Government and Pakistan.

# List of Tables

# Abbreviations

WTO World Trade Organization

GDP Gross Domestic Product

GoP Government of Pakistan

IMF International Monetary Fund

LDCs Less Developed Countries

OECD Organization for Economic Co-operation and Development

EOI Export-oriented industrialization

BVS Bonus Voucher Scheme

TFP Total Factor Productivity

SMEDA Small and Medium Business Development Authority

TUSDEC Technological Skills Development and Updating Company

APTMA All Pakistan Textile Mill Association

EDB Board for Engineering Development

CEO Chief Executive Officer

FPCCI Federation of Pakistani Chambers of Commerce and Industry

ISI Import substitution industrialization

CBR Central Board of Revenue

EPZ Export Processing Zones

IPE Institutionalist Political Economy

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# Chapter: 1 Introduction

## 1.1 Background

Industrial policy plays an important role in achieving economic stability. It is a set of government policies that seek to encourage the development of specific industries, often by providing financial incentives or by protecting industries from foreign competition. Many economists argue that a dynamic industrial policy is essential for a healthy and dynamic economy. For instance, Amartya Sen, a Nobel Prize-winning economist, argues that industrial policy can be used to reduce poverty and inequality, and to encourage economic development. He argues that governments should support industries that are likely to create jobs, increase exports, and contribute to economic growth. Moreover, the World Bank has found that countries with strong industrial policies have higher economic growth rates than those without. This is due to several factors, such as increased access to capital, improved technology, and better access to markets. Additionally, industrial policy can help to reduce poverty and inequality, as well as create jobs and stimulate investments.

Finally, industrial policy can also contribute to economic stability. This is because it can help to reduce macroeconomic volatility, such as inflation, and help to stabilize the financial system. This is due to the fact that industrial policy can help to reduce the risk of financial crises, and support the financial sector. In conclusion, industrial policy can have a positive impact on economic stability. It can help to reduce poverty and inequality, create jobs and stimulate investments, as well as reduce macroeconomic volatility and support the financial sector. Therefore, it is essential for governments to implement robust industrial policies that are tailored to the needs of their economies.

In order to achieve rapid industrialization for economic and social development, beneficial activities must be actively encouraged. In this process, the role of the state is crucial. The central role of the state in foreseeing structural change and building workable coordinating mechanisms across the various stages of industrial growth has been claimed by several academics to be a defining characteristic of the "late industrializers"1 in Asia (Nixson, 2007b). Many economies have experienced fundamental changes since the early 1980s, leading to a transition away from interventionist state regulation of the economy and industry and toward liberalization. Neoliberal ideologies, which support institutional reforms in line with the principles of free market

economics, and which hold that markets are the fundamental engine of economic progress, are what are driving this transition (Henderson, 2007). However, since the late 1980s, there has been a resurgence in academic interest in industrial policy initiatives and the role of the state, both of which go against the fundamental tenets of neoliberalism. The focus of this paper's discussion is on the efficiency of government initiatives for advancing technological advancement and industrial growth (Lall, 2000). In the past, many economies, notably those of Western Europe and the United States, developed their industrial capacity as a result of direct government interventions, according to a growing body of research (Shafaeddin, 1998). This working paper critically examines the political economy of industrial policy in Pakistan and its results using the industrial policy framework as a framework. The state of Pakistan has historically used a variety of institutional and regulatory procedures to encourage fair access to development resources, much like other countries in Latin America and East Asia. However, there were also significant mediating factors related to race, institutional inequalities, income, and geographical differences. These variables impact how capital accumulation and distribution policies are carried out, which in turn impacts how industrial development plans perform (Sayyed, 1995; Noman, 1988). Pakistan's desire to have a miracle economy has been thwarted by the inadequate political tools, state-society relations, and administrative frameworks (Hasan, 1998; Khan, 2000a).

This working paper seeks to add to the conversation about industrial policy by offering a fresh look at Pakistan's industrial performance. Recent literature on industrialization has highlighted the significance of political alliances, accumulation and distribution patterns, and the role of the state in influencing the sector's growth (Sayyed, 1995; Nadvi and Sayyed, 2004; Khan, 2000b). While most studies on Pakistan's industrial performance have focused on conventional economic analysis methods to assess the expansion and development of the manufacturing sector (Wizarat, 2002; Kemal, 1978; Kemal, 1999; Ahmad, 2008), recent literature on industrialization has emphasized these factors as This research contributes to the expanding body of knowledge on the industrial policy debate in Pakistan by examining how the state affects economic transformation using the Institutionalist Political Economy (IPE) model proposed by Chang and Rowthorn, (1995) and Chang, (2002).

The framework provides an alternative viewpoint to other methodologies. In contrast to institutional economics, which views the state as a key manager of the institutions that shape and control human behavior, welfare economics, for instance, views the state as a social protector.

Contrarily, neoliberal philosophy presupposes that any Structural rigidity is a state role that goes beyond market simplification (Chang, 1994).

The state is mainly examined in the IPE framework for two crucial functions in economic transformation, namely entrepreneurship and conflict management. The state must act as an entrepreneur by offering a vision for the future and creating workable institutional frameworks for resource allocation, resource coordination, and economic and structural transformation. Chang (2003a) asserts that in order to act as a conflict-mediator, the state must build a formal coordination framework, protect recently formed property rights, and develop and carry out a public policy agenda. In essence, the state must offer efficient governance frameworks to resolve disputes and create institutions.

In order to develop policy suggestions for industrial growth and development, an in-depth study of Pakistan's manufacturing industry was conducted for the Industrial Policy report. In line with the report's structure, a three-tiered analysis of Pakistan's industry is provided. An examination of industrial performance and structure at a macro level is the first layer of analysis, which identifies the nation's main structural transformation challenges. This section focuses on policy suggestions that encompass a wide range of economic activity in the nation aimed at fostering industrial development. During the second tier of study, the manufacturing sector is studied in depth on a firm and sector level. By identifying important vertical or sector-level policy actions, a value chain and stakeholder study can improve firm competitiveness and sectoral growth. This research technique is used to examine 24 industries, including both important knowledge- and ancillary-based and small and medium-sized export-based industries.

In the third level of analysis, we examine the spatial aspects of the industrial sector, or economic geography, which includes topics such as income inequality, poverty, and the formation of industrial clusters based on disparities in infrastructure provision across and within provinces. This part of the analysis creates indices to assess industry concentration and finds factors that affect the establishment of clusters using the Census of Manufacturing Industries (CMI) disaggregated dataset and rigorous econometric and statistical approaches.

## 1.2 Research Objective

This study's primary goal is to examine Pakistan's industrial policy's political economy. As a result, the IPE incorporates a historical analytical perspective that is used to evaluate arguments and factual data. Two key goals are the goals of the investigation. This article can contribute to the

growing body of literature on institutionalist political economy in Pakistan by offering a preliminary national case study. Additionally, it will assist Pakistani observers in better comprehending industrialization in light of social, political, and economic factors. According to the goals, the key study areas have been the political orientation that is currently in place, how the industrialization process has performed historically, and the state's contribution to Pakistan's industrial development.

Through a thorough examination, the Industrial Policy Description aims to offer policy suggestions for the advancement and expansion of Pakistan's manufacturing sector. An investigation of the Pakistani industry on three levels is possible thanks to the research framework. The first layer involves a macro-level assessment of the industry's performance and structure, which identifies the main obstacles to the nation's structural transformation. This section's policy recommendations center on broad or horizontal interventions that are necessary for industrial expansion across a variety of the nation's economic sectors. The manufacturing sector is examined in-depth at the second level of study through an examination at the business and sector levels. Through a value chain analysis and a stakeholder study, the primary barriers to boosting the competitiveness of businesses and sectoral growth are analyzed. This approach to methodology aids in the dissemination of necessary sectoral or vertical policy actions. Twenty-four industries in all, ranging from significant supporting industries, knowledge-based industries, to significant export-based small and medium businesses, are covered by this analysis.

Economic geography, which addresses issues like interprovincial and intraprovincial inequalities in the provision of infrastructure and the resulting impact on income inequality, is the third level of study, which takes a broader look of the industrial sector. on industrial cluster development and poverty. The Census of Manufacturing Industries (CMI) disaggregated dataset is used in this section's analysis, along with rigorous econometric and statistical methods, to produce both the indices that measure industrial concentration and the factors that have a sizable impact on whether clusters form or not.

### 1.3 Pakistan's Industrial Sector: Structure, Performance, and Issues

At the initial stage of analysis, referred to as the macro-level analysis, various macro-level indicators and sector-specific metrics are utilized to examine the historical trends and performance of the industrial sector. The macroeconomic management and industrial sector growth performance are the key topics of this section. The section emphasizes that although Pakistan's

GDP has grown by more than 5% annually for the previous forty years, these periods of rapid expansion have been mostly driven by consumption, which has resulted in repeated cycles of "boom" and "boom. bust." Pakistan's growth has not been primarily driven by industry, which has led to a low and unstable average growth rate.

Pakistan's industrial sector plays an important role in the country's economy. It is responsible for more than 20% of the country's GDP and employs millions of people. Despite its importance, the sector has faced many challenges over the years.

Pakistan's industrial sector is mainly made up of textiles, food processing, chemicals and engineering. The textile industry is the most important, accounting for more than 50% of industrial production. It is mainly concentrated in the province of Punjab. The agro-food industry is the second in importance, representing more than 20% of production. It is mainly concentrated in the province of Sindh. The chemical industry accounts for about 10% of industrial production and is mainly located in Khyber Pakhtunkhwa province. The engineering sector is the fourth, with a share of around 6%.

Despite the importance of the industrial sector, it has faced many problems over the years. These include lack of adequate infrastructure, insufficient access to capital, lack of skilled labor and a weak legal and regulatory framework. These problems have hampered the development of the sector and led to slow growth.

To address these issues, the government has taken several steps. These include the development of industrial parks, the creation of special economic zones and the granting of loans on favorable terms to small and medium-sized enterprises. The government has also encouraged the development of new technologies and the adoption of cleaner production methods.

To further improve the performance of the industrial sector, the government needs to focus on infrastructure development, access to capital, and improving the legal and regulatory environment. In addition, the government should focus on developing job skills and improving access to technology.

Overall, Pakistan's industrial sector is an important part of the country's economy and has the potential to contribute significantly to its development. However, the sector has faced many issues that need to be addressed to ensure its long-term growth and development.

In addition, the macroanalysis uncovers that Pakistan's structural progress has been focused on moving from agriculture to services, while manufacturing expansion has stayed fairly stagnant.

It shows that, when compared to other countries in the area, Pakistan's manufacturing sector is highly centralized in a few industrial products with limited additional value. Prospects for industrial growth are dubious due to a limited manufacturing base and a focus on low-tech, low-value-added items, whose worldwide market share is decreasing. Pakistan's economy was based on textiles from the beginning, and this is still true now. Pakistan's most significant industry is the production of cotton textiles, which accounts for 60% of all exports and around 19% of large-scale industrial employment. The paper looks at the outstanding investment performance in the country in comparison to regional economies after looking at the features and performance of the manufacturing sector. As a result of both repeated macroeconomic volatility and a persistently hostile investment environment, there has been a recent substantial drop in investment in the large-scale manufacturing sector. According to the experience of newly industrialized nations such as Korea and Taiwan, greater investment or capital accumulation is required for growth; thus, the secular decline in investment appears to be the primary cause of the slow growth of the overall GDP.

This section focuses on the larger barriers causing the systemic standstill of industrial development and investment after discussing trends in industrial performance and investment. The limitations of factor markets, the availability of infrastructure, the highlighted factors include the absence of stability in macroeconomic conditions, challenges in the regulatory framework, concerns related to security, and the negative image of Pakistan. This is accomplished using the body of facts already in existence regarding the aforementioned limitations, Fees levied by the World Bank and other similar research groups for access to firm data are an example of such costs. According to the report, eliminating cross-cutting obstacles will facilitate the industrial sector's overall growth. These are essentially the horizontal policy changes required to promote manufacturing expansion in general. The following list of interventions includes some of them. The necessity to strengthen the fiscal space is stressed in terms of macroeconomic stability, through the broadening of the tax base. The advice to lower the rate of nominal interest, which has hampered investment and output growth, emphasizes the significance of smart fiscal and monetary policy. It is also emphasized that coordination of industry and trade strategies is critical. Additional techniques for preserving and improving the development of the value-added industry include the right use of non-tariff barriers and the formation of a science park.

The energy problem, which has shown to be by far the largest limiting factor in industrial

growth and development over the previous two years, is addressed with specific policy measures. The importance of peak load pricing, efficient load shedding management, and giving the industrial sector preference over the consumer and commercial sectors are all underlined.

It's also advised to produce electricity in industrial and special economic zones. Long term, it is advised that the energy mix should change to include more effective/affordable foundations, solar energy and wind, hydro are examples. It also underlines the need for regional equipment for hydro, thermal, and coal-fired power plants.

After emphasizing the issues and issues with the nation's logistics infrastructure, specific suggestions are made to modernize it. For instance, it is advised to significantly restructure the railroads and make new investments in freight services. It is advised to construct Logistics Parks close to industrial districts to cut down on transportation and trucking costs. It is advised that the current computerized customs clearance system be maintained and upgraded in view of the relevance of a port-based automated customs clearing system. Finally, the significance of Gwadar as a potential outlet for future expansion is underlined, and suggestions for how China may assist in realizing this potential are made.

Policies are suggested to establish industrial parks and agricultural processing zones in recognized "hot spots" of economic activity in order to support the expansion of current and resource-based enterprises. Government engagement is particularly important for modernizing technology, building brands, raising quality requirements, such as phytosanitary precautions, and making it easier to enter global markets. In addition, it is suggested that industrial zones include shared effluent treatment facilities and hard and soft infrastructure. In order to address some of these issues, appropriate policies are devised. Other issues linked to factor markets, labor, land, and credit are also discussed.

Pakistan is in the midst of a rapid industrialization process and the government is looking to create industrial parks and agricultural processing centers to further this development. In order to ensure that these industrial parks and agricultural processing centers are successful, the government must establish clear policies to meet the needs of the private sector.

The first step in establishing these policies is to ensure that industrial parks are located in areas conducive to industrial activity. This means that industrial parks should be located in regions with access to reliable transportation and communication networks, easy access to resources such as water and electricity, and sufficient labor availability. Additionally, these parks should be located

in areas where there are no environmental hazards that could adversely affect park operations.

The second step is to ensure that agricultural processing centers are located in areas conducive to agricultural production. This means that centers should be located in areas that have access to water and other resources necessary for agricultural production and that there is sufficient space for the production of crops and livestock. In addition, centers should be located in areas where there are no environmental hazards that could adversely affect center operations.

The third step is to establish policies to ensure that industrial parks and agricultural processing centers comply with local government regulations. This includes ensuring that parks and centers comply with national laws and regulations, including but not limited to labor laws, pollution control regulations, and safety and health regulations. Health at work.

Finally, the government must establish policies that ensure the economic viability of industrial parks and agricultural processing centers. This includes policies that will ensure that parks and centers are able to achieve profitability through the sale of their products, as well as policies that will ensure that parks and centers are able to attract the investment needed to succeed.

By taking these steps, the government of Pakistan will be able to establish successful industrial parks and agricultural processing centers that will benefit the economic development of the country.

Many recommended solutions can be used to improve job training and talent development. There are various programs being proposed to incentivize employers to train their employees, including a Skills Development Fund and a skills-based salary subsidy system. One of the biggest barriers to the growth of small businesses has been credit market restrictions. A two-pronged approach to solving the information asymmetry problem in the credit market is to promote venture capital funds and credit guarantee programmes. To maintain property rights in the context of land markets, it is essential to accelerate the computerization of property records. An emphasis is placed on improving the country's governance in order to attract foreign investment and expand industry. Several reports suggest bureaucracy and "informal" costs associated with doing business with the government are excessively expensive and time-consuming. Additionally, lack of assurance regarding the security situation discourages foreign investors from looking for commercial collaborations in Pakistan. The legal system is sluggish, and it can be difficult to determine if contracts and land rights are sacred. These governance-related policy suggestions are also being made. The establishment of a suitable Science Park is the section's final strategic suggestion for

fostering knowledge-based companies in the nation. Universities and research facilities will formally operate in partnership with the Science Park. The entire product cycle will be supported by the necessary infrastructure, which will enable R&D, manufacturing, marketing, and branding. The Park will serve as a hub for the manufacture of cutting-edge goods as well as an incubator for scientific breakthroughs. This project would draw experts, entrepreneurs, and scientists who, in part, would stop the brain drain by assisting the industry's technological upgrade. The Science Park would also make it possible to coordinate government programs and focus government interventions in knowledge- and technology-based industries that are subject to WTO norms and regulations.

### 1.4 Technique

Analytical and content analysis (using reports, literature, and available secondary authentic sources) approaches to the systematic investigation were applied in the study. To give background for key concerns in the political economy of industrial and development policy, a literature survey was done. To elucidate the theoretical basis of the problem, the review focused on the function of the state, institutionalist political economics, and other conventional theoretical frameworks. For the specific Pakistani literature review study, the problems brought up by the review of the literature served as guidance. The primary sources of information on industrial performance were studies of South and East Asia, Latin America, and Pakistan. Additionally, the analytical work of scholars like Dr. Asad Sayyed, A. R. Kemal, Dr. Khalid Nadvi, Parvez Hasan, Drs. Akbar Zaidi, and Shahida Wizarat, and was heavily referenced in order to add a sense of "triangulation" (Jick, 1979) to the study of data pertaining to Pakistan.

The study used secondary data to examine the facts and provide conclusions from a distinctive institutionalist political economy approach. While using available analyses and secondary data had obvious advantages, such as saving time and money, there were still certain gaps that in-person interviews with workers from the private and public sectors could help fill. Another challenge was that the research had to look into numerous institutional characteristics of interaction between the private and public sectors, but it was challenging to get pertinent information from Pakistan quickly. As a result, issues with insufficient triangulation may have hampered certain research's analytical components.

### 1.5 Study's Purview

The study's primary focus is on the political economy of Pakistan's industrial policy, for two

reasons. Firstly, Pakistan is one of the few developing countries that started with a weak industrial base, inadequate agricultural infrastructure, and limited administrative resources. Despite these resource constraints, it was able to significantly restructure the economy within a decade, increasing the manufacturing sector's contribution to GDP. Second, Pakistan strangely failed to build an institutional framework for negotiated dispute settlement and, as a result, saw a decrease in its industrial performance since the mid-2000s, despite initial progress in structural change and industrialization. These seemingly at odds characteristics make the nation an intriguing subject for an analytical case study that may aid in comprehending the state's function as an entrepreneur and conflict management. Nevertheless, the research makes no claims to provide a thorough analysis of the growth of Pakistan's industrial sector. The sectoral makeup of industrial production and exports will only be briefly mentioned since the research aims to analyze the industrial policy of political economy

Pakistan is a rapidly developing country with a growing industrial sector and a developing political economy. The industrial sector contributes about 25.4% of the country's total GDP and the sector has grown at an average of 5.4% over the past five years. Agriculture is the mainstay of the economy, accounting for 22.6% of GDP and employing 43% of the total workforce. The service sector contributes 52% of GDP and employs 47% of the total workforce.

The manufacturing sector has been the main engine of economic growth in recent years and has been a major contributor to exports. The textile and clothing industry represents 6.7% of GDP and employs 45% of the industrial workforce. The pharmaceutical sector has shown enormous growth potential with pharmaceutical exports increasing at an average annual rate of 16.5%. The automotive industry has experienced significant growth in recent years and has become a major contributor to the industrial sector.

The Pakistani government has taken several steps to improve the country's industrial policy and political economy. A number of incentives have been granted to the industrial sector, including tax rebates, subsidies and duty-free imports. The government has also implemented various reforms to improve the business environment, such as the introduction of the Companies Act 2017 and the establishment of the Pakistan Competition Commission.

Overall, the industrial sector in Pakistan has grown tremendously in recent years and the sector is expected to continue growing in the future. Government efforts to create an enabling business environment and to improve industrial policy and political economy are expected to

contribute to the development of the sector.

### 1.5.1 Pakistan's Competitiveness in Key Industrial Sectors

Pakistan has a strategically advantageous position in South Asia and its industrial sector is a key contributor to its economic growth. The country is rich in natural resources and has a young, dynamic, and educated workforce. This makes it an attractive destination for foreign investments. It is clear that the competitiveness of Pakistan’s industrial sector is important for economic growth and development.

Pakistan has a diverse industrial sector, with some key sectors being textiles, leather, chemicals, pharmaceuticals, and engineering. Textiles and leather are the most important sectors and account for around 60% of the country's total exports. The textile industry has experienced considerable growth in recent years thanks to government efforts to recover the keenness of the division. The administration has implemented various initiatives to modernize the textile industry and increase its exports.

The chemical sector is Pakistan's second largest sector and is a major contributor to the country's economic growth. The sector has grown rapidly in recent years thanks to government efforts to improve the competitiveness of the sector. The government has implemented various initiatives to modernize the chemical industry and increase its exports.

The engineering sector is the third largest sector and is a major contributor to the country's economy. The sector has experienced significant growth in recent years due to government efforts to improve the keenness of the subdivision. The government has implemented various initiatives to modernize the engineering sector and increase its exports.

The pharmaceutical sector is the fourth largest sector and is a major contributor to the country's economic growth. The sector has experienced considerable growth in recent years thanks to government efforts to improve the cheapness of the segment. The management has put in place various initiatives to modernize the pharmaceutical industry and increase its exports.

Overall, the competitiveness of Pakistan's major industrial sectors is critical to the country's economic growth and development. The government has implemented various initiatives to improve the competitiveness of the industrial sector and increase its exports. This has resulted in increased economic growth and made Pakistan an attractive destination for foreign investment.

An analysis of problems affecting certain domestic enterprises and industries is conducted in the second portion of the industrial policy study. Both large and small manufacturing sectors are

analyzed in this section. Each sector's competitiveness is boosted by numerous policy options after examining each condition. In order to achieve this, we hold in-depth consultation meetings with industry representatives, review all current research on the industry in Pakistan, and, for certain industries, conduct straightforward value chain analyses accompanied by a comprehensive industry assessment that contextualizes the added value achieved. The use of this methodology helps identify the barriers to value addition and determine why some companies are at the bottom of the global value chain. Several factors are cited as contributing to the lack of value addition and competitiveness, including factor conditions, demand conditions, internal competition, related industries, and government involvement. On the basis of this larger body of research, emerging and strategic vertical policy actions have been developed. All significant large industries, significant SME export industries, and light engineering sectors are all covered by us. Steel, chemicals, and fertilizers are just a few examples of the core and auxiliary industries that are covered. We consider knowledge-based sectors like the car, electronics, and pharmaceutical industries, which includes biochemistry. The study delves into the analysis of 18 subsectors of small and medium-sized enterprises that play a crucial role in both domestic and international markets. These subsectors encompass a wide range of industries, such as surgical devices, sporting goods, fans, cutlery, agri-food, leather goods, furniture, marble and granite, gems and jewelry, and the light engineering industry, among others. We contend that the primary sectors must be included because nearly the entire value-added industry depends on them for its inputs. For instance, 101 chemicals are needed for leather tanning, 98 of which are now imported. Due to this, prices go up and there are shortages. Similar to other industries, the pharmaceutical industry depends entirely on imported chemicals. We advise the government to make investments in developing the country's chemical industry if Pakistan goes more toward value addition. The installation of a naphtha cracker facility is one of those recommendations. Additionally, steel is a component in practically all sectors with value addition. It is startling to find that the Pakistani mill is experiencing huge deficits despite the high local demand for steel. We recommend that the government triple the steel mill's capacity over the next five years and invest in order for the mill to produce high-quality steel. We also recommend that the government capitalize on Pakistan's existing iron ore riches for its own benefit.

In this section, we also look at a few sectors at daybreak. Sunrise has chosen industries where we believe there are gaps in the worldwide supply chain and that Pakistan can leverage its strategic

uniqueness into an edge over competitors. We contend that knowledge-based companies like those in the automotive, electronics, and pharmaceutical sectors are where these opportunities are most prevalent. When we examine the automotive business, we discover that local industry interests have been severely harmed and that prior regulations have been heavily influenced by global corporations. We provide evidence that the local industry has expanded significantly when the cancellation policy has been followed, but since the introduction of Trade Related Intellectual Property Rights (TRIPS), neither indigenization nor growth of the local automotive industry have occurred. International partner licensing programs are prohibitively expensive, particularly in the tractor industry. They restrict the ability to sell, particularly in export markets with value-added. We suggest means through which the government might encourage FDI from outside and support, for instance, tractor producers in acquiring global brands. Strong backing is also given to the removal program, and a significantly higher rate of removal is anticipated.

## 1.6 The Thesis's structure

Following the first chapter, the second part of the working paper examines both theoretical and empirical research on function of state and industrialization. As a prelude to the next chapter on the state's role in Pakistan's industrial strategy, the third chapter discusses Pakistan's political economy and its industrial strategy. Pakistan's industrialization is discussed in the fourth chapter as an entrepreneur and conflict manager. The last chapter concludes the sessions with a summary of the topics.

# Chapter 2: Literature Review

## 2.1 Theoretical Foundations of Industrial Strategy and the State's Role

As a result of industrialization, living standards have been boosted (Colman and Nixson, 1994). Often, a postcolonial political sensitivity and the realization that commodity demand is low may fuel the nation's desire for industrialization (Chang, 2003a). The shift from agricultural to industrial was therefore essential for quick financial growth (Chenery, 1986). A recent report from the Millennium Development Goals (MDGs) reaffirms the need for labor-intensive industrialization to achieve pro-poor growth and job creation. Memiş and Montes (2008) argue that poverty must be eradicated in developing countries.

As well as industrialisation, productivity investment and structural transformation can be described as the process of integrating and replacing labor with machine-driven and electric methods (Nixson, 2007b). In order for industrial development to be a operational alteration process, an appropriate organizing player is required. Abramovitz, 1986) also argues in favor of a coordinating actor because "capital is independent in ownership but interdependent in use."

However, identifying a prospective coordinating player has become more challenging since neoliberalism emerged in the late 1970s. Several parts of the world have experienced industrial development (Chang, 2003a, p. 24) as a result of this conversation. As a result of institutional arrangements and policy decisions made by the state, a significant topic in this thesis relates to how it has historically shaped the living conditions of people.

### 2.1.1 Neoliberalism as a viewpoint

Neoliberalism is an economic and political ideology that emphasizes free markets and limited government intervention. It was popularized in the late 1970s and early 1980s by a number of economists, including Milton Friedman, Friedrich Hayek, and James Buchanan. Neoliberalism proposes that government play a limited role in the economy and let market forces dictate economic outcomes. Neoliberalism views regulation and taxation as barriers to economic growth and believes that individuals should be able to pursue their economic freedom.

The core tenets of neoliberalism include the deregulation and privatization of industry, the reduction of trade barriers, the removal of government subsidies, and the reduction of public services. Neoliberalism also emphasizes the importance of competition and the market, with the aim of creating an efficient and competitive environment for business. Neoliberalism also promotes free trade and the free movement of capital.

Neoliberalism has been criticized by some for its potential to exacerbate inequality and poverty, as the removal of government intervention can lead to the concentration of wealth in the hands of the wealthy. Furthermore, some argue that neoliberal policies can lead to a decrease in workers' rights and job security, as well as a decrease in the quality of public services.

Despite its criticisms, neoliberalism has been widely embraced and implemented by many countries, such as the United States, United Kingdom, and Canada. Neoliberalism has had a significant impact on global economic policy, as it served as the basis for many government policies. Its influence continues to grow, as many countries have partially or fully adopted neoliberal policies.

The core system of neoliberal ideas holds that there is no need for direct state involvement other than to address market failure. Similar to how a particular industrial policy is perceived as a questionable method of economic change and a regressive intervention (Chang et al., 2003a). It is stated that “industrial policy” ought to successfully eradicate market distortions brought on by governmental initiatives (Lindbeck, 1981).

It is said that a certain industrial policy is less effective since there are insufficient and no available policy tools that can effectively convey a variety of manufacturing strategy objectives (Pangestu, 2002).

The principal-agent model, office issues, government failure, transaction costs, and rent-seeking theories are also used to make the case for a hands-off state (Niskanen, 1973). Grand (1991); Krueger (1974). The central assertion is that failing governments are a bigger issue than failing markets. In order to solve the concerns of growing global competitiveness and profitability, industrial policy under the neoliberal system of ideas must do away with state-directed management interventions and increase the possibility for market-based allocations (Yu, 1997).

### 2.1.2 Point of View of The Heterodox

It is a unique group of individuals who are unafraid to challenge the status quo and to think outside the box. They are driven by a desire to make a difference and to promote a culture of openness and critical dialogue. The Heterodox seeks to create an environment of acceptance and understanding of different perspectives, with the ultimate goal of creating a more equitable, inclusive, and vibrant society.

At Heterodox, we value diversity of thought and opinion and encourage the sharing of ideas across diverse backgrounds and experiences. We recognize that each individual has something to

contribute and strive to create space for meaningful dialogue and collaboration.

It is believed that dialog is essential to any healthy society and our goal is to create an environment where meaningful and productive conversations can take place. We seek to challenge prevailing ideas and assumptions and promote understanding and challenge the status quo. We invite everyone to join our discussions and contribute to a more equal and just world.

The Heterodox is committed to creating an atmosphere of mutual respect and understanding. We strive to cultivate an atmosphere of respect, acceptance and understanding, even when we disagree. We are committed to fostering a culture of inclusion and understanding and to creating an environment where everyone can feel free to express themselves.

It is believed that our mission is essential to building a more egalitarian and dynamic world. It is invited everyone to join us in this mission and help create a more equal, inclusive and vibrant society.

Heterodox theoretical perspectives, on the other hand, challenge the Washington Consensus approach's support of neoliberal orthodoxy. In consequence, the neoliberal concept system's central assumption—"states should not affect economic development"—is reexamined on both a theoretical and empirical level. Therefore, the revisionist literature examines how administrative direction and investment coordination were provided by Japan and other newly industrialized countries (NICs) (Wade, 1990).

The East Asian government's strict control and reciprocal subsidies have been shown to reduce societal waste and deal with problems like rent-seeking and principal-agent conflicts (Chang, 1996). An extensive range of theoretical perspectives and empirical findings are utilized in order to reexamine the so-called "government failure" concept.

A rising corpus of research is questioning the assumptions that underpin both confined and expansive industrial policy recommendations in a free market. Shapiro and Taylor, 1990, emphasize microeconomic targeting at the corporate level as the main argument for a particular industrial strategy. In a global production network and value chain, businesses may lay the groundwork for industrial competitiveness despite a wide range of industrial policy justifications (Dicken, 2007). It is imperative that the government not only establishes rules of the game and "gets pricing right," but also helps businesses to acclimate to new globalised production systems (Lall, 2003; Lall, 2000).

The Schumpeterians see structural transition towards industrialisation as an inherently

unstable process requiring deeper universal involvements than a reflexive scheme of general enticements can provide, in accordance with Memiş and Montes (2008). Developing practical technical competence is, therefore, a key argument in this approach. A proactive approach of risk-management and the sharing of sunk costs strategies is necessary to protect domestic enterprises and entrepreneurs against unfair competition (Khan et al., 2007).

## 2.2 Practical Proof on the State's Role in Industrial Performance

### 2.2.1 Eastern Asia

Empirical evidence has been collected to demonstrate the role of the state in industrial performance in Eastern Asia. Studies have shown that state intervention in East Asia has had a positive effect on industrial performance. This is especially true in China, where the government has taken a proactive role in promoting industrial growth and development.

For example, the Chinese government has invested heavily in infrastructure and human capital development, which has resulted in rapid economic growth. This allowed the creation of new industries and the expansion of existing ones. Additionally, the government has provided grants and other forms of financial assistance to help businesses succeed. This allowed companies to expand and diversify their activities, leading to an increase in industrial productivity.

Other East Asian countries have also seen the positive effects of state intervention. Singapore, for example, has been able to leverage state-owned enterprises to contribute to industrial development. Through these companies, the government was able to provide capital, technical support and other resources to businesses. This allowed companies to grow and scale faster, leading to better industrial performance.

Besides the role of the state, empirical evidence has also shown that East Asian firms have benefited from the presence of a strong entrepreneurial spirit. This has allowed companies to take risks and innovate, leading to improved productivity levels. This has been particularly important for small and medium enterprises, which have been able to capitalize on new markets and opportunities.

Overall, empirical evidence suggests that the role of the state and a strong entrepreneurial spirit have been critical for industrial performance in East Asia. Thanks to state intervention and the presence of a strong entrepreneurial spirit, companies have been able to enjoy higher productivity, greater market opportunities and better economic growth.

The example of Eastern Asian industrialization's success provides a challenging dilemma for

both free-market oriented those who support n and "export pessimist" Latin American the structuralists and dependence theories (Nixson, 2002). Beginning with Japan's early structural change in the 1920s, this region displays the potential and success of entrepreneurial and purposeful state interventions (Memiş and Montes, 2008). The state's participation in ensuring consistent export performance through a variety of measures that targeted loans to support particular domestic industries for instance, in South Korea, between 1962 and 1985, 57.9% of loans were prioritized and subsidized as "policy loans." Additionally, between 1979 and 1988, South Korea's heavy, chemical, and light industries performed substantially better than those of several other countries, including Spain, Greece, Chile, Mexico, Brazil, and South Africa as part of the Heavy and Chemical Industrialization (HCI) initiative (Chang et al., 1993).

According to Stiglitz and Charlton (2005), the state plays a catalytic role in supplying the real estate and institutional foundations of Eastern Asian economies. which is in accordance with the general industrial policy theory. On the other hand, Chang (2003b) persuasively argues that baby industry and protection strategies have existed historically and go well beyond the provision of supportive infrastructure. For instance, the government of South Korea has implemented a distinct industrial strategy while coordinating macroeconomic and ancillary measures with the goals of the industrial policy. Additionally, the state specifically instructed the businesses to capitalize in long-term weighty and biochemical businesses rather than producing consumer products that might be sold for a fast profit (Chang, 1993). Evidence suggests that other European nations, like France, Austria, and Norway, used selective industrial strategies, similar to Brazil's for the aircraft sector (Chang et al., 2004).

### 2.2.2 Latin American

The role of the state in the region's industrial performance has long been a source of contention. While some think that the government should be more active in supporting economic growth, others contend that the government should be more inactive. We shall look at the empirical data on the role of government and business performance in Latin America in this essay.

To begin with, it is important to note that the industrial performance of Latin American countries is closely linked to their degree of economic development. Therefore, it is necessary to consider the economic development of the region when considering the part of the national in its manufacturing performance.

In general, empirical research has shown that countries with higher levels of economic

development achieved better industrial performance. Indeed, higher levels of economic development lead to more investment in infrastructure and better access to capital and technology. Additionally, countries with higher levels of economic development also tend to have better access to resources, which can help improve industrial performance.

Furthermore, research has also shown that states with higher levels of economic development tend to have better industrial performance than those with lower levels of economic development. This is likely because higher levels of economic development lead to better access to resources, better infrastructure, and greater investment in technology.

Additionally, research has also shown that states with higher levels of government intervention tend to have better industrial performance than those with lower levels of intervention. This is likely because higher levels of state intervention lead to better access to resources, higher levels of investment in infrastructure, and better access to technology.

Finally, research has also shown that states with higher levels of political stability tend to have better industrial performance than those with lower levels of political stability. This is likely because higher levels of political stability lead to more investment in infrastructure and technology, better access to resources, and better access to capital.

In conclusion, empirical evidence suggests that the part of the government and industrial presentation in Latin America are closely linked. Higher levels of economic development, state intervention, and political stability tend to lead to better industrial performance. This suggests that Latin American states should strive to maintain higher levels of economic development, state intervention, and political stability in order to achieve better industrial performance.

The early stages of ISI in Latin America accelerated the region's industrial sector's 6.5% annual growth rate between 1950 and 1981. This growth rate was greater than that of some emerging nations. Although there was great inequality in wealth levels, GDP increased by 5.35% year and income per capita doubled over this time. Between 1991 and 2002, the growth rate was slowed to 1.9%, while the revenue per capita remained flat (Palma, 2003). The ISI phase assisted Latin America in creating its home market, its technological infrastructure, and backward and forward connections in its industrial systems (Nixson, 2007a). Latin American structuralist economists contend that by actively including the state in ISI strategy, Brazil was able to build and experience the so-called "economic miracle" in the1960s to70s period. (Jenkins et al., 1992).

The dependence theorists' "export pessimism" rendered the "post-ISI" period more of an

uncharted terrain for export-oriented industrialization (EOI). The ruling class of politics, administration, and capitalism needed to act more dynamically in reaction to EOI. Instead of coming up with a creative solution, the ISI period was overstretched, which led to severe financial problems and opened the door for neoliberalism to take hold in the early 1980s without any improvement in growing duties (Palma, 2003). Interestingly, between 1985 to 98, Latin America's regional proportion of manufactured global exports, excluding Mexico, fell from 16.89% to 8.89%, while the share of East Asia rose from 56.9% to 69%. (Lall, 2003).

### 2.2.3 Sub-Saharan Africa

Since both ISI and neoliberal export-led growth plans with a "no industrial strategy" has the potential to fail to bring about development, the situation in Sub-Saharan Africa differs dramatically from that of East Asia and Latin America. However, when comparing the time before and after the 1980s, ISI tactics are seen as the Sub-Saharan African region's golden age. For instance, in the case of Ghana, following structural adjustment, employment fell by two thirds between 1987 and 1993 and industrial sector development stalled at at 8%. Comparing this achievement to 1965, when the manufacturing sector's GDP share was roughly 10%, it seems less remarkable (Stein, 2003).

The institutions of government, politics, and conflict organization are considered to be the main stumbling blocks to industrial growth in Africa. Therefore, it should not come as a surprise that between 1979 and 1999, the income per capita in Africa actually decreased, although the export of manufactured products accounts for a minor portion of world commerce (Soludo et al., 2004).

## 2.3 Pakistan: State Industrialization Strategies

### 2.3.1. Industrial development Policies

Sub-Saharan African countries have long been subject to varying levels of state intervention in their industrial performance. While the effectiveness of these interventions is widely debated, empirical evidence from the region provides insight into the role the state plays in industrial performance.

A recent study by the World Bank examined the impact of state intervention in sub-Saharan Africa on industrial performance. The study compared the industrial performance of countries with a high level of government intervention with those with a low level of government intervention. He found that states that intervened more in their industrial sectors tended to have better industrial

performance, measured in terms of productivity, jobs created and exports.

The study also found that countries with higher levels of state intervention demonstrated more efficient use of resources, such as labor, capital, and technology. This was especially true in countries where the government played a more direct role in resource allocation. Moreover, countries that invested more heavily in industrial development and infrastructure had better industrial performance than those that did not.

The study also found that countries with higher levels of state intervention had higher levels of investment in research and development, which is essential for improving industrial productivity. In addition, the study highlighted the importance of state capacity to create an enabling environment for industrial growth. Specifically, countries with stronger industrial policies and regulations have higher levels of industrial performance than those with weaker industrial policies.

Overall, the empirical evidence from the study indicates that the state plays an important role in the industrial performance of Sub-Saharan African countries. Through its ability to intervene and invest in industrial development, the state can have a positive impact on industrial performance. At the same time, it is important to ensure that policies and regulations are effective in order to maximize the potential for industrial growth.

The initial ten years (1950-1965) of Pakistan's industrial history were characterized by the implementation of the import substitution industrialization (ISI) model, which was also adopted by most developing nations in East Asia and Latin America. During the following decade (1960-1970), the ISI approach was sustained, along with the provision of protection for specific industries and deregulation with a pro-business stance (Ahmed and Amjad, 1984; Kemal, 1999). Although the previous two decades' policies achieved significant industrial growth, they also saw a surge in regional inequities and wealth inequality. The ensuing political, social, and economic polarization had a variety of effects, including the 1971 partition of Pakistan (Zaidi, 2005). The years 1947 to 1971 are also known as the growth and collapse of Pakistan's industrial policies during that time (Khan, 2000a).

Third-decade nationalization and "state capitalism" are characterized as taking place between 1970 and 1980. (Hasan, 1998). Massive public sector investments were undertaken during this time, and the results started to show in the next ten years (Zaidi, 2005). With the exception of nationalization, Pakistan mostly continued its economic strategies from the third decade (1980–

1990). Nevertheless, although being a crucial period for industrial strategy, it was marked by serious resource waste, inefficiency, implementation flaws, and a delayed rise in manufacturing employment4 (Sayyed, 1995; Kemal, 1999). Programs for structural adjustment are prevalent during the 5th and 6th decades (1990s and 2000s), as are neoliberal policies. The agenda for liberalization, denationalization, and deregulation has been introduced, along with measures to lower obstacles to investment and competition for industrial growth (Wizarat, 2002). However, it's noteworthy to note that "the neoliberal changes have coincided with an unmistakable downturn in the fortunes of the industrial sector" (Nadvi et al., 2004).

The character of the government in industrial performance in Pakistan has been a subject of empirical research for some time now. This article will provide a comprehensive overview of the empirical evidence on the matter.

Studies have found that the government's role in industrial performance in Pakistan is crucial. Government policies, including tax incentives, subsidies, and access to finance, have been found to be of utmost importance for the growth of industrial performance in the country.

In addition, it has been shown that the state's role in the development of infrastructure and providing access to skilled labor are critical components of industrial performance. The government's role in providing access to technology and information has also been found to be significant.

Further research has also suggested that the government's role in providing incentives to investment is necessary for Pakistan's industrial performance. This includes both direct and indirect incentives, such as investment tax credits, subsidized loans, and export incentives.

Furthermore, the government's role in providing access to capital, such as foreign direct investment, has been found to be an important factor in the industrial performance of Pakistan. This is due to the fact that investment from abroad is essential for the development of the country's industrial sector.

Finally, research has also suggested that the government's role in providing a stable macroeconomic environment is essential for Pakistan's industrial performance. This includes providing a favorable exchange rate, a supportive regulatory environment, and the maintenance of macroeconomic stability.

Overall, the empirical evidence suggests that the government's role in industrial performance in Pakistan is of utmost importance. Government policies, such as incentives, access to finance

and technology, and a stable macroeconomic environment, are essential for the growth of Pakistan’s industrial sector.

### 2.3.2 The State

Disorganization, authoritarianism, elitism, and political behavior are hallmarks of Pakistan's government. In the postcolonial state, the parliamentary system and civil society organizations were weak and dominated by an authoritarian civil and military elite (Jalal et al., 1990; 1995). Consequently, the state has absurdly acted both as an agent for the ruling classes and as an agent in the development of contemporary institutions (Waseem et al., 1989). In Pakistan's first five-year plan (Ford and Harvard, 1965), bureaucracy was listed as the single biggest obstacle to success.

Pakistan Located in South Asia, Pakistan has 212,742,631 citizens, making it the sixth most populous country in the world. The nation is bordered by Afghanistan and Iran on the west, India on the east, and the Arabian Sea on the south. Founded in the name of Islam, this is the only nation in the world.

Pakistan, also known as the Islamic Republic of Pakistan, was declared a sovereign state on August 14, 1947, after the partition of India. It is a federal parliamentary republic. Islam is Pakistan's official state religion, but the country is home to a variety of religious and ethnic groups, including Hindus, Christians, Sikhs, and Parsis.

Pakistan is a developing country and its economy is the 24th in the world in terms of purchasing power parity. It is the second largest Muslim-majority country in terms of population. Pakistan's economy is heavily dependent on agriculture, which accounts for 24% of GDP and employs 44% of the working population. Other important sectors are industry, which accounts for 23% of GDP, and services, which accounts for 53%.

Pakistan is a nuclear power, with a strategic arsenal of nuclear weapons and ballistic missiles. It is a member of the United Nations, the Commonwealth of Nations, the Shanghai Cooperation Organization, the Organization of Islamic Cooperation, the South Asian Association for Regional Cooperation and the Economic Cooperation Organization.

Pakistan has a rich cultural heritage and is home to some of the most spectacular landscapes in the world. It is famous for its hospitality and varied cuisines. Pakistan is also a major tourist destination, with a variety of attractions including the Khyber Pass, the Karakoram Highway and the ancient city of Taxila.

Pakistan is a vibrant democracy and the people of this country are proud of their country's

progress and achievements. It is making great strides towards becoming a progressive and prosperous nation. With a vibrant culture, rich history and promising future, Pakistan is a nation of immense potential.

It is believed that the state's push for industrialization is a global phenomenon that has affected nearly all Less Industrialized Countries (LDCs) and modern industrialized economies (Gerschenkron et al., 1996). However, in Pakistan, the structural change processes ran into some very contentious social, economic, and political problems. The discriminating, elitist nature of the state itself was a significant factor in the structural instability (Noman, 1988; Hussain, 1976). Many academics contend that Pakistan's government has had less success addressing the aspirations of various segments of its citizens. Multiple disputes have weakened the state's institutional structures' capacity for administration. It is asserted that a desire for autonomous development plans for industrialization has also been destroyed by an overreliance on foreign aid (Khan, 2000a, 2000b).

It appears that Pakistan is preparing for challenging alternatives for industrial growth under the existing policy framework. Based on the analysis of both theoretical and empirical literature, it seems that there is a lack of interest in exploring new industrial policies beyond the privatization, deregulation, and liberalization paradigm, as indicated by the Ministry of Finance in 2008. However, some scholars argue for the need for industrial policy in areas such as industrial credit and pro-poor transformation, as highlighted by Nadvi et al. in 2004.

Despite this, Pakistan's social and political context appears to present some unique characteristics, as well as certain challenges, which may require tailored industrial policy solutions. The state's personality could have had an impact on how well the economy performed. Therefore, the Institutionalist Political Economy paradigm may be used to analyze the function of the state. The framework examines the state's function as an entrepreneur and a mediator of conflicts, as was described in Chapter. The political economy of Pakistan's industrial strategy is closely examined in the next chapter.

## 2.4 Pakistan’s Development and Policy at a Glance

Pakistan is a rapidly developing nation, with a vision to become a strong and prosperous nation by 2047. Over the past decades, the government has prioritized the development of the country, focusing on creating a more stable economy, improving infrastructure and improving access to education and health care.

The government of Pakistan has made significant investments in infrastructure, including improvements to roads, railways and ports, and investments in energy projects. This has led to a steady increase in economic growth, with the country's gross domestic product (GDP) expected to reach $1 trillion by 2025.

Furthermore, the government has implemented a number of policies to support the development of the country. These include providing incentives for private investment, encouraging entrepreneurship and fighting poverty. Other initiatives have included the introduction of microfinance and the promotion of financial inclusion.

Education has also been a key objective, with the government investing in the construction of new schools and universities and providing access to quality education for all citizens. The government is also investing in research and development, with the aim of developing a knowledge-based economy.

The government has also taken steps to improve access to health care, with the establishment of a universal health coverage program, which aims to ensure access to health care for all citizens.

Overall, the government of Pakistan has undertaken a number of initiatives to promote the development of the country. The government is working to create a more stable economy, improve infrastructure, and increase access to education and health care. Thanks to these measures, Pakistan should continue to develop and become a strong and prosperous nation.

Pakistan is a country with a rich historical and cultural heritage, and its development and politics have been shaped by both its internal dynamics and its regional and international influences. A brief look at the country's development and politics reveals a story of struggle, resilience and progress.

Since its independence in 1947, Pakistan has made great strides in economic, social and political development. The country has established a pluralist democracy with a constitution that protects the rights of its citizens. In the economic sphere, Pakistan has experienced remarkable growth and development since the 1980s and has seen its Gross Domestic Product (GDP) per capita increase significantly. The country is now the 26th largest economy in the world, with an overall economic growth rate of 5.2%. Since liberalizing its economy in the late 1980s and early 1990s, the country has attracted significant foreign direct investment and seen its exports grow steadily.

The Government of Pakistan has also implemented a number of policy initiatives to promote

economic growth and development. These include the establishment of the Pakistan Poverty Alleviation Fund (PPAF), the launching of the Vision 2025 program and the formulation of the national trade policy. In addition, the government has introduced a number of labor reforms to improve working conditions and protect workers' rights Khan, M. A. (2017).

Socially, Pakistan has made significant progress in the areas of education, health and gender equality. The country has achieved near universal primary school enrollment and made progress in secondary and tertiary enrolment. In the health sector, the government has implemented a number of programs to reduce maternal and infant mortality, improve access to drinking water and increase access to basic health care. Finally, Pakistan has made significant progress in promoting gender equality, with a number of initiatives aimed at empowering women and promoting their participation in the labor market and politics Khan, M. A. (2017).

Overall, Pakistan has made significant progress in its development and politics since independence in 1947. Despite the challenges and hardships, the country has faced, its citizens have shown resilience and progress. remarkable in overcoming them. Thanks to the implementation of a number of policy initiatives, the country has seen its economic and social indicators improve significantly.

Since the financial crisis and recession of 2007/2008, both international financial institutions (IFIs) and academia have revived their interest in industrial strategy and the developmental state (Chang, 2012; Storm, 2015; Wade, 2015). As a result of trade and investment agreements and global value chains, traditional development models are under further restrictions. Nevertheless, countries have considerable discretion to apply selective policies (Gallagher, 2005; Wade, 2003; Chang, 2012; Wade, 2015; Aggarwal and Evenett, 2010). Interventionist finance sector policies remain one of the few instruments available to developing nations. Due to the recent crisis, which has challenged conventional knowledge about finance, there is an urgent need to rethink this topic. However, the relationship between the financial sector and the stage of development in an era of globalisation has not yet been analyzed.

While industrial policy's legitimacy has increased globally, many developing nations have not experienced this development, because they lack the "state capacity" to successfully implement industrial policies (Chang, 2012). According to this theory, with the exception of a small subset of countries (East Asian), all attempts to use extensive state control over the financial sector in support of industrial policy will fail because the state cannot deliver. It is true despite the fact that

numerous research studies demonstrate that successful developing states have done so. Is it also necessary to learn the lessons of state-controlled finance from developing nations that are less successful than the East Asian Tigers?

Pakistan provides an interesting case study in terms of the evolving role of the financial sector in conditions of development. While financial liberalization has been widely regarded as a failure in other countries, in Pakistan it led to the allocation of credit to unproductive sectors that were profitable in the short term, as opposed to the more productive sectors such as industry and agriculture that had been prioritized before liberalization. This article evaluates the contribution of the financial sector to Pakistan's real economy both before and after the liberalizing reforms, highlighting the shift in priorities and its impact on economic development. (2) Despite some aspects of financial health being problematic before reform, such as non-performing loans (NPLs) and corruption, they have not improved as much as expected since liberalisation. During the pre-reform era, banks were not a significant source of loss to public finances, but they have since become one. According to these findings, the financial sector consistently outperformed state control, even though punishments were lax, corruption widespread, and industrial strategy was considered subpar. Therefore, this study casts doubt on the widely held belief that Pakistan's pre-reform banking system was a miserable failure following the liberalization and privatization reforms.

### 2.4.1 The Role of Finance in The Developmental State

The role of finance in the development of a state cannot be overstated. This is a crucial element for the overall success of any nation and must be taken into account if a nation is to achieve its goals. Finance, in many ways, is the lifeblood of any state, providing the capital and resources needed to drive economic growth and development.

When considering the role of finance in the development of a state, it is important to consider the various aspects of finance involved. This includes both public and private financing as well as foreign direct investment and portfolio investment. Public finance is the area of finance primarily concerned with government spending, taxation, and borrowing. Private financing includes activities such as banking, insurance, and investing, and foreign direct investment occurs when foreign companies invest directly in a country's economy.

In terms of the role of finance in the development of a state, it is important to note that the government can use public finance to finance infrastructure, education and health care initiatives.

This can be crucial in improving the overall quality of life for citizens. Private finance can be used to fund investments in new businesses and industries, which can lead to job creation and economic development. Finally, foreign direct investment can be a powerful tool for attracting foreign capital and technology to stimulate growth.

In conclusion, finance plays a vital role in the development of any state. It is important to understand the different aspects of finance and how they can be used to support the development of a state. With the right policies in place, finance can be a powerful tool for stimulating economic growth, creating jobs and improving the overall quality of life for citizens.According to the well-known "state of development" literature (Chang, 2002; Kohli, 2004), government intervention was essential to late development success by implementing selective industrial policy and "imparting directional drive." Studies have argued that selective industrial policy was important to late economic success to "impart direction to the economy" (Amsden, 1989; Woo-Cummings, 1999). Industrial policy included a variety of forms of public financial regulation, including capital controls, intentionally underdeveloped capital markets, government development banks, state commercial banks, direct credit programmers, interest rate controls, and loan quotas (designed to centralize credit allocation). The regulations enabled high-priority industries to access capital resources (Gerschenkron, 1962).

Additionally, public control of finance had a political function by strengthening state organisations and enabling them to operate as development coalitions (Johnson 1987; Skocpol 1985: 6; Woo-Cummings 1999). Several empirical studies have found that financial control systems have been widely used in rich emerging nations, including China (Nolan, 1995), Taiwan (Wade, 1990), Korea (Amsden, 1989), and Japan (Aoki and Patrick, 1995),

### 2.4.2 Pakistan's experience with finance in a "failed" state of development

Pakistan has a long and complex history of funding a 'failed' development state. At the end of the 20th century, Pakistan was classified as a "failed" state due to its economic and political instability, which prevented it from maintaining a sufficient level of development.

The country's financial system was weak and its banking sector underdeveloped. There was a lack of financial regulation and the government was unable to properly manage its monetary policy, which led to high inflation and an unstable exchange rate. This, coupled with a weak infrastructure and lack of qualified personnel to manage the financial sector, has led to a state of

financial crisis.

The country's financial sector has improved considerably since then. The government has implemented reforms to strengthen the banking sector and ensure that the financial system is well regulated. It has also taken steps to attract foreign investment and increase financial inclusion, which has helped improve the country's financial stability.

Additionally, the government has implemented a number of financial literacy initiatives, which have helped educate citizens about the importance of financial literacy and increase the availability of financial services for people at all levels of life. income.

Although these measures have helped to improve Pakistan's financial situation, much remains to be done. The economy remains fragile and the country is still classified as a "bankrupt" state. The government must continue to focus on improving the financial sector and increasing financial inclusion if it hopes to achieve sustainable economic growth.

East Asia's successful states of development and its failed states of development, particularly in South Asia, Latin America, and Asia, have been the focus of much state of development literature. The sub-Saharan African region; 2013; Haggard. Academic writing and policy circles now widely accept that successful developers have relied on industrial policy and public financing, but a prevailing belief persists that if failed developing states try the same combination of policies, resource misallocation will undoubtedly end abruptly, and all state financial institutions will collapse owing to corruption and rent-seeking. In addition, these governments lack the bureaucratic and disciplinary structures that characterized the original East Asian Tigers. A controversial report from the World Bank in 1993, which advised other countries not to "try it at home" because the East Asian tigers may have emerged through state intervention, illustrates this school of thought. It is seen in these circumstances as much more important to correct the issues in the state than to correct those in the market. Even after the 2008 financial crisis, this opinion hasn't changed much (Guven, 2012).

Accordingly, emergent state liberalization efforts should lead to improved financial outcomes if this viewpoint is correct. But there is still a dearth of study in this area. Although many studies suggest that financial liberalization increases the risk of financial crises in developing countries (Chang et al., 2001; Grabel, 1996; Ocampo et al., 2007), little has been written about how it impacts the economy itself. Finance can be used in developing countries more effectively if research is conducted on how the financial sector performs in "development failure" scenarios

before and after liberalisation. They aren't success stories yet, at least not yet. How much worse can the failure of a state be than the failure of a market under these conditions? Is it preferable for developing countries to have some public financial oversight even when they declare bankruptcy? In this regard, Pakistan is an important case study.

Pakistan is frequently cited as an example of a failed development state (Clark and Chan, 1994; None, 1991) due to its weak ability to oversee commercial interests, which leads to resources being allocated to unproductive businesses and rent-seeking behavior within those industries. It is heavily influenced by Balassa (1971) and Little et al.'s Fundamental Critiques of Import Substitution Industrialization (1975). A more thorough study of Pakistan's development period (1950–1980) has moderated this opinion, suggesting that overall performance was better before liberalisation in the 1990s, particularly in terms of industrial growth (Burki et al., 2011; Nadie, 2015; Zaidi, 2005). In spite of some triumphs, Pakistan's development was much less successful than that of the original East Asian Tigers.

It changed its interventionist development policy completely in the 1990s, making Pakistan one of the most liberalized countries in the 2000s with neoliberal reforms (Zaidi, 2015). In a failed state of progress, Pakistan is a good case study for comparing the results of publicly regulated versus liberalised finance. In addition to influencing other developing countries, this study has important implications for countries perceived to be less effective than Kuwait at liberalizing their financial markets (Munir and Naqvi, 2017: 1721). Despite popular perceptions that Pakistan's financial liberalization has been a huge success, the findings in this article cast doubt on those claims. This article casts doubt on popular perceptions of Pakistan despite the IMF, World Bank, and local officials rating its financial reforms among the best in the developing world.

# Chapter 3: Industrial Policy's Political Economy

## Introduction

The manufacturing sector's fortunes show rising and declining phases in Pakistan's economic growth. The chapter examines the industrial performance chronologically using a historical analytical approach starting with the typical Import Substitution Industrialization (ISI) phase to achieve export-led growth plans5. It compares Pakistan's industrial policy growth with that of other countries, especially South Korea, beginning with the formation of Pakistan in 1947. Additionally, in order to provide a comprehensive assessment of the challenges in the chapter that follows, this chapter highlights important components of conventional industrial strategy.

## 3.1. The First Decade of Economic Transformation:

### 3.1.1. To Developmental Industrialization

A key component of industrialization growth strategy. When Pakistan gained independence from the British Raj in 1947, it was characterized by severe deficits in its economic, industrial, and human resources. It was necessary to structurally restructure a mostly agrarian, ineffective, and underperforming economy, therefore early economic managers chose to favor industrialization processes in the early 1950s (Lewis, 1969).

Agricultural raw material export prices were falling and the balance of payments was worsening, which were the most powerful forces behind industrialization. As a means of stimulating industrial activity and dissuading other forms of investment, such as commerce, the administration industrialized trade policy tools, economic advantages, and profits (Zaidi et al., 2005). Pakistan's ISI's industrial concentration may have some similarities to Brazil's industrialization efforts prior to World War II under Getulio Vargas. Pakistan's distinctive post-colonial knowledge, however, and the breakup of its custom union with India in 1949, greatly influenced the international trade landscape (Hewitt, 1992 provides more information on Brazilian industrialization).

### 3.1.2. The State's Role in Industrial Development

Goverment-led industrialization was similar to what happened in Brazil and South Korea. Before handing over productive resources to the private sector, Pakistan's main industrialization strategy employed the public sector to collect money and make investments (Ford and Harvard, 1965).

During the early stages of industrialization, Pakistan did not have any significant large-scale

industries. Instead, cotton and jute emerged as the primary commodities for export, along with consumer goods. Interestingly, Pakistan was able to produce 75% of the world's jute without owning a single jute mill. Similarly, with only a few textile factories, Pakistan was able to produce 1.5 million bales of cotton (Lewis, 1969). As the country moved closer to industrialization, the strategy worked. As a result of the booming industrial sector, Pakistan's economy grew by 3% between 1947 and 1958 while its economy grew by 23.6% between 1949 and 1954 and by 1960, the economy was growing by 9.3% (Zaidi, 1999; Sayyed, 1995).

### 3.1.3. Industrialization and Performance Strategy

Import Substitution Industrialization (ISI) was a strategy employed by Pakistan during the first ten years, which has been referred to as a classic and somewhat successful period of ISI. The plan helped establish an exportable surplus and provided the groundwork for the industrial sector's subsequent decades of strong expansion (Zaidi, 2005). By encouraging the import of capital and intermediate products at inflated exchange rates, the state acted to create and distribute rents as well as try to influence investment choices in line with industrial interests. In the early 1950s, policies including protection against the import of consumer goods, the provision of fiscal subsidies, and the availability of credit created an atmosphere that allowed for large industrial profits6 (Zaidi, 1999; Ahmed and Amjad, 1984).

The industrial sector growth rates and agricultural growth rates are shown in Table 3.1. The data indicates that Pakistan's agricultural growth experienced a downturn while industrial development took precedence. Food shortages, political turmoil, and other major consequences were brought on by a decline in agricultural growth (Hasan, 1998).

## 3.2 The known Progress Decade - The 2nd Decade:

The Pakistani government designated the second decade, from 1958 to 1968, as the decade of development. In the first five years of the decade, the large-scale manufacturing sector grew at a rate of about 17%, which led to a 10% rise in manufacturing overall. However, between 1960 and 1970, manufacturing production was only about 13%. (Zaidi, 2005). Due to the use of high yielding cultivars developed during the Green Revolution and advancements in water storage and distribution technologies, agricultural growth was a significant departure from the previous decade (Papanek, 1967).

The growth rates of the manufacturing and agricultural sectors are displayed in Table 3.2 below.

However, similar to the previous decade, small-scale sectors did not exhibit substantial development when likened to large-scale productions, which may have had effects on revenue circulation as the decade ended.

### 3.2.1 Decontrolling and Early Liberalization

A number of control systems were changed by the government during the 1960s, and pro-business legislation was passed. Foreign assistance eased the burden on foreign exchange, allowing imports to be more easily made. As a result of deregulating and encouraging industrial growth, surpluses may have boosted manufacturing exports (Hasan, 1998). It is estimated that Pakistan exported more commodities than Turkey, Indonesia, and South Korea, combined in 1965, according to Zaidi (2005).

According to Noman (1992), Pakistan sold more commodities to OECD countries in 1968 than Indonesia, Thailand, Turkey, and Malaysia combined. However, export growth lagged behind other countries due to institutional lethargy and poor governance.

### 3.2.2 ISI Development and Improvement

The government made efforts to develop export-oriented industrialization (EOI) for basic and secondary products as well as intermediate and capital goods ISI. The Bonus Voucher Scheme (BVS), which provided incentives for exporters and restricted imports, assisted in maintaining two currency rates (Nadvi and Sayyed, 2004). Jute and cotton exports significantly increased within three years of BVS's debut in 1959, according to reports. However, this governmental involvement was blamed for stopping the long-term industrialization processes (Zaidi, 2005; Ahmed and Amjad, 1984).

Compared to the intermediate and consumer goods sectors, Pakistan's investment goods industry grew at a faster rate during the first half of the decade. This may have happened since the investment products industry was also a focus of the ISI strategy (Zaidi, 2005, p. 100). The trend in growth rates for consumer, intermediate, and investment products is displayed in table 3.3. However, Wizarat (2002) contended that the ISI's too aggressive expansion stunted industry productivity gains.

### 3.2.3. Industrial Policy's Political Consequences

According to the administration, the 1960s were a "decade of progress," although some academics refer to them as the "controversial 1960s" (Ahmed and Amjad, 1984). Ayub was toppled in 1969 by the political labour movement due to popular views about growing inequality, a lack of emphasis on social justice, social exclusion, and sugar shortages (Nadvi and Sayyed, 2004).

Pakistan's policy instruments and reliance on the ISI appear remarkably However, because of the state's involvement and political economic repercussions, the outcomes were different in the following decades. Due to South Korea's economic improvement, Brazil had to change its policy in the late 1970s. Political upheavals in that year significantly affected the structure of the economy in Pakistan. Following Pakistan's partition in 1971, the "otherwise effective" industrial policy and growth strategy were dropped. (Wizarat 2002).

## 3.3 Nationalization and Investing in Public Sector - The Third Decade:

In actuality, a new Pakistan was also established with the independence of East Pakistan. Significant modifications in commerce and industrial development patterns were the main cause. Before December 1971, East Pakistan imported 18% of West Pakistan's imports and received around 50% of its goods from the latter (Zaidi et al., 2005). Pakistan no longer possessed the eastern wing. On the political front, a democratic civil administration committed to address inequality problems.

### 3.3.1 Reaction to Nationalization and Concentration

Dr. Mahbub ul Haq's revelation that faulty economic policies in the previous decades had allowed twenty-two families or companies to collect 66% of industrial assets fueled popular hostility toward private riches. According to another estimate, thirty-seven monopolistic enterprises obtained over 65% of Pakistan Industrial Credit and Investment Corporation (PICIC) loans. while thirteen large business houses skimmed off 70% of this distribution (Ahmed and Amjad, 1984).

As a result, the civilian rule nationalized the financial and industrial sectors in line with its electoral program against inequality (Hasan, 1998). The first industries targeted were those that produced capital goods and intermediate commodities, and by the middle of the third decade, the public sector also included the banking and insurance sectors. The dictatorship made a conscious effort to disrupt the link between industrial and financial capital. With a few omissions, it is broadly held that communist populism under nationalization plans caused a long-term economic crisis and slowed the rate of industrialization as a result of these policies9. Others contest these assertions because private investment was already declining before 1972 (Ahmed et al., 1984).

### 3.3.2 Economic Performance

Unlucky events including poor harvests, floods, and the oil shock10 of 1973–1974 contributed significantly to the perception of an economic downturn during the 1970s. When compared to the 1950s, the regime's economic performance wasn't horrible (Burki and Laporte,

1984). Contrary to common belief, agriculture growth was about equivalent to that of the rest of the economy in 2005, according to Zaidi (2005); nonetheless, there was a little fall in the industrial sector. The oil shock is also considered in the case of Brazil as an unlucky aspect that sparked the balance of payments problem and industrial collapse following the "miracle" from 1964 and 1974. (Hewitt, 1992).

Below are the growth rates for this time period. It's noteworthy to note that throughout the 1970s, the rate of growth in the small-scale sector climbed from an average of 2.7% for the prior decade (see table 3.2) to more than 7%.

### 3.3.3 Investing in Public Sector

During the period of 1971–1977, several subsidies and concessions were removed from the industrial sector, changing the economic policy direction toward the concentration of private industrial capital. Additionally, export bonus programs were stopped. However, throughout the middle of the 1970s, significant investments were made in the public sector. Although these investments took a while to bear fruit, they did so in the 1980s (Ahmed and Amjad, 1984). The trend in public sector investment is seen in figure 3.1 below. Additionally, the price of wheat, rice, and sugar was raised to encourage agriculture. Additionally, the nationalization of financial institutions made it easier to direct financing toward small farmers and the export industry.

Although public sector investment expanded dramatically, it seems that, in contrast to other nations, these investments did not actively create jobs in the industrial sector. For instance, between 1970 and 1980, South Korea had a rise in the percentage of manufacturing jobs, from 7% to 14%, whereas Pakistan saw no change, staying at 2%. (WB, 1990). The major causes were structural, including poor human wealth creation and a general lack of industrial development tactics that involved a lot of labor.

## 3.4 The Fourth Decade: Industrial Growth Despite Inefficiencies

The 1980s were mostly governed by a military dictatorship after the military coup that ended the Bhutto administration in 1977. According to Zaidi et al. (2005), the public sector's expenditures in production and infrastructure, private sector investment recovery, and international funding flows all benefited during this time period. An overview of governmental and private sector investments in the manufacturing industry is provided in table 3.5 below. In the fourth decade, Pakistan's GDP increased by 6.5% from 1980 to 1988. (WB, 1990). The manufacturing sector expanded by 9% over this decade, compared to 3.7% between 1972 and 1977, and significant

public investments, Pakistan Steel Mill in Karachi, for example, began operations in 1981 and attained its full output in 1984 (Hasan, 1998). After 1977, Pakistan did not resort to nationalization as a policy tool. Instead, the share of public sector investment in the overall industrial investment declined significantly from 65.25% in 1979-1980 to 17.85% in 1987-1988, with only minor instances of denationalization. This shift marked a major departure from the policy trends of the preceding decade. Previous data indicates a decline in the public sector's contribution to large-scale manufacturing during this period (Sayyed, 1995).

### 3.4.1 Policy, Coordination, and Structural Issues

Economists view the 1980s as a period when resources were wasted without attaining the requisite levels of efficiency. Moreover, it is contended that despite growth in the value-added industrial sector, no employment opportunities were generated during this time (UNIDO, 1990). Interestingly, despite being the only time period in which industrial strategy was developed and carried out, Pakistan's economic performance revealed severe implementation gaps. The most notable change in manufacturing growth overall was a rise in capital stock share (82.33%), with little change in total factor productivity (3.17%) or labor productivity (14.5%). Total Factor Productivity (TFP) was lower than normal for emerging countries while the percentage of capital stock was high (Sayyed, 1995). According to this argument, Pakistan may not have learned much from the East Asian experienceThe reality is that Pakistan still had an inadequate industrial policy, and there was little cooperation between the public and private sectors (Hasan, 1998). In contrast, Chang (1996) argues that a crucial element of East Asian economic strategy has been the partnership between the government and private sector to achieve economic growth.

### 3.4.2 Export of Manufacture: The Question of Value-added

Deregulation, liberalization, and export incentives were highlighted in Pakistan's sixth five-year plan (1983–1988), which also signaled the beginning of a gradual transition from particular to general industrial strategy (Zaidi, 2005). As a result, a variety of export subsidies were increased in amount and distribution in an effort to achieve export-led development. Some programs, including Export Processing Zones (EPZs), did not, however. Internal coordination issues between the ministries of industry, commerce, and finance were among the reasons for failure (Hasan, 1998).

Due of their quick payoff potential and short gestation periods, the textile and apparel industries got precedence throughout the 1980s. However, the incentive structure did not increase claim for value calculation, and fiber yarn continued to be a significant export that also got significant subsidies (Hasan, 1998). While grey cloth and cotton yarn continued to dominate

exports, it looked that small scale manufacturing was the major source of employment. However, this crucial industry was still stuck in an equilibrium of low productivity, low wages, and intense rivalry (Nadvi et al., 2004).

It is important to observe that while the EPZs had little effect on manufacturing exports in Pakistan, they had a significant impact there. Contrary to Pakistan, it appears that the Mauritian government made an effort to preserve the meta-institution of participatory democracy that gave rise to the moniker "super civil society" for Mauritius. In this institutional setting, EPZs as institutional innovations helped to strike a balance between free-trade regimes and interests of the ISI based on protection (Rodrik, 2007). Despite a rise in manufactured exports from US$1.3 billion to US$3 billion, Pakistan's growth rate lagged below Turkey and most of East Asia. The performance in terms of export revenue will be discussed in chapter 4.

## 3.5 The Fifth Decade: Structural Adjustment

### 3.5.1 Considering Structural Changes

As of 1988, Pakistan's structural adjustment programmes (SAP) were in their long-term phase. As a result, Pakistan's development slowed between 1988 and the mid-1990s, inflation rose, income distribution worsened, and poverty increased (Hasan, 1998). In light of the circumstances, the World Bank and International Monetary Fund (IMF) made demands of the government. Manufacturers were given a greater emphasis in the new growth strategy. Due to this, the Seventh Five Year Plan (1988–1993) included structural adjustment programs aimed at restructuring the industrial sector and advancing deregulation, privatization, and liberalization goals. The IMF and World Bank have also negotiated an end to gas, power, telephone, and fertilizer subsidies. The list of defined firms has also been restricted and industrial site rules have been phased out (Zaidi, 2005).

Nadvi and Sayyed (2004) argue that the Financial Reforms Act of 1991 liberalised the economy in large part by recommending "getting pricing right" and shifting resource allocation to the market.

Private investment restrictions were eliminated and the private sector was encouraged to become involved in a wide range of projects, including banks, highways, power production, and airplane manufacturing. Due to the fact that foreign equity investment was allowed to control 100% of the company on a repatriable basis, foreign equity investment was encouraged. It was also possible to borrow from abroad (Hasan et al., 1998).

### 3.5.2 Structural Adjustment and Industrial Performance

Researchers continued to harbor strong reservations about the efficacy of neoliberal policy changes during the 1990s, nevertheless. In reality, the annual growth rate for the manufacturing sector fell from 8.22% in the 1980s to only 4.81% in the 1990s. The development amount reached negative 0.11% in 1996–1977 and was just 1.5% in 1999–2000. (Zaidi, 2005). From 1977 to 1988, the manufacturing sector expanded by 9.2%. However, it began to drop, growing by 4.8% between 1988 and 1990, 6.5% between 1990 and 1993, and then 5.1% between 1993 and 1996. (Hasan, 1998). A summary of the prior years and the industrial output for this period are discussed in chapter 4.

### 3.5.3 Exploring Growth Rates

While manufacturing employment has really decreased to 11.5% in 2000-01 from 15.5% in 1969-70, Despite changes, it appears that manufacturing's share of overall investment has stayed fairly constant (17.0% in 1979-80 and 17.7% in 2000-1) (Nadvi et al., 2004). Additionally, it indicates that the rapid removal of tariffs, together with utility price increases and a rise in interest rates on working capital, may have had a detrimental influence on the development of the industrial sector (Khan, 1999). There are several economic policy and noneconomic variables that may be used to explain the poor economic performance, including the collapse of Pakistan's manufacturing industry. It has been suggested that macroeconomic stability is necessary for exchange rate liberalization, asset privatization, and incentives for both local and international investment to deliver growth spikes. Despite neoliberal changes in the 1990s, a high growth trajectory remained a mirage. In reality, some claim that economic liberalization and weak governance together caused the financial crises of the 1990s (Hasan, 1998).

Indeed, attracting foreign direct investment (FDI) has been a significant focus for international financial institutions, as it is seen as a way to promote industrial development and growth. These institutions often recommend creating policies and investment environments that are attractive to foreign investors in order to address economic challenges. However, some scholars have pointed out that relying too heavily on FDI can lead to an overreliance on external sources of investment and a lack of attention to domestic development. Thus, the role of FDI in promoting industrial and economic growth remains a topic of debate. The cost of conducting business is reduced, and barriers to competition are eliminated (WB, 2005). It appears that Pakistan has problems that call for an entrepreneurial government with institutional structures and the ability to carry out cooperation among the public and private sectors.

## 3.6 Further Liberalization in the Sixth Decade:

### 3.6.1 20s Industrial Performance

Despite structural adjustment attempts in 1988, no Pakistani government has been able to build a meaningful and autonomous industrial policy structure since liberalization began. A focus of policy has been on creating policy frameworks that meet the requirements of the World Bank and the International Monetary Fund (IMF) (Zaidi, 2005). As mentioned above, the manufacturing sector suffered a notable decline in the 1990s, possibly as a result of timing and reform implementation.

During the sixth decade, the Pakistani government adopted more changes and pledges in favor of liberalization, deregulation, and privatization as part of its growth strategy (MOF, 2008). The neoliberal policies, on the other hand, paradoxically did not result in the expected growth of the industrial sector. Table 3.8 shows that growth rates initially increased before declining in 2005-2006. Manufacturing growth was sporadic, according to Zaidi (2005, p. 122). However, since 2003–2004, when small-scale industry growth reversed and fell to a negative level (-20%), the industry has begun to recover. The manufacturing industry has grown at a 12 percent annual rate since tariff reductions in 2002, according to some experts (Ahmad, 2008). In contrast, Table 3.8 shows a decline in the industrial sector between 2004 and 2005.

### 3.6.2 Liquidity and Private Investment Situation

The abundance of market liquidity was a major aspect of the 2000s. However, Pakistan has been unable to capitalize on this potential by significantly increasing private investment in industry (Bengali et al., 2008). Researchers have suggested that the state's involvement in the overall plan for Pakistan's economic growth has been poor in comparison to regional rivals. Additionally, since its inception in 1988, macroeconomic liberalization has consistently reduced the number of rents for the manufacturing sector while failing to bring about any appreciable competence or buildup improvements (Nadvi et al., 2004). According to empirical data, manufacturing got just 8.1% of private sector investment for the fiscal year 2007–2008, although total fixed investment increased by 0.9% in real terms. Comparing the first ten months to the previous year, foreign direct investment decreased by 16.7%; nonetheless, it is focused (66.5%) in the financial, oil and gas and communication sectors. Three strategically significant nations, the UAE, the United States, and the United Kingdom, account for more than half (57%) of all FDI (MOF, 2008).

### 3.6.3 Looking for an Industrial Development Environment

The Government of Pakistan has been encouraged by the Asian Development Bank to create

a new industrial policy that should concentrate on the structural transformation of manufactured exports while transitioning to high-technology items and inviting investment to close the technical gap (Haque, 2008). One may argue that the Lall's technological competence argument provides one of the fundamental foundations for the state's participation in industrial growth (2000). Some facets of a technology policy and investment are clarified.

The circumstances that led to industrial decline may be questioned in order to establish an atmosphere conducive to industrial development. It's possible that economic, political, and social issues all contribute to the fall in industrial performance. Law and order, the energy crisis, political unrest, and overall price hikes for gasoline and energy are a few examples of these concerns. According to this line of reasoning, scholars have also suggested that Pakistan's declining industrial sector has a direct relationship with the structural adjustment programs (Khan, 1999). In other words, Pakistan's structural, institutional, policy, and procedural limitations have been linked to the country's industrial collapse (Bari et al., 2003). The new industrial policy must thus be integrated into the state's overall development plan as a significant takeaway from South Korea.

## 3.7 Summary

Soon after becoming a nation, Pakistan made the decision to industrialize and reform its economy. ISI13 has historically been Pakistan's primary industrialization strategy, with considerable attention also being shown towards EOI. The state used policy tools over the first ten years to encourage industrialization. During the second decade of industrialization, the Pakistani government encouraged and supported the private sector to accumulate and invest in industrial growth. However, political pressure on economic inequality led to the nationalization of the public sector in the 1970s, giving it a more prominent role. The government's inability to address the structural problems inherited from this policy shift and the wastage of resources nearly led to the failure of the second wave of industrialization in the 1980s. The end of the 1980s saw the beginning of Pakistan's neoliberal ascendency under different structural adjustment programs. Under the export-led growth plan, there hasn't been a clear breakthrough in the manufacturing sector growth to yet. In actuality, the contentious growth boom that began between 2004 and 2006 is rapidly slowing down.

The current situation in Pakistan indicates that the government needs to find a way to address the decline of the industrial sector while taking into account the country's history, institutions, and social and political dynamics. To achieve industrial progress, the government needs to facilitate

structural change, provide institutional vision, and demonstrate leadership. The next chapter will explore the state's role as an entrepreneur and its ability to manage conflicts.

# Chapter 4: Industrial Sector Analysis

The initial part of this chapter examines the organizations that support the growth of industry and the relationship among the public and private sectors, while the second section is a sophisticated examination of Pakistan's current circumstances and issues concerning industrial development from the standpoint of public-private partnership. clusters, industry, and concerns for the region's economic growth.

## 4.1 The foundation for industrial development's present state and issues

## 4.2 Industrial Development Overview

An overview of Pakistan's industrial progress since the 1960s can be found in the table below;

| | 1960 | 1970 | 1980 | 1990 | Present |
|---|---|---|---|---|---|
| Political Environment | Military rule | Socialist regime, Separation of Bangladesh | Military rule, Soviet invasion to Afghanistan | Democratic rule, Nuclear test, frequent government changes | War on terror Semi-military rule |
| Industrial Orientation | Import substitution Industrialization | Nationalization | Privatization | Privatization | Privatization. Public-private Partnership |
| Trade | Protectionism, Export subsidy | | Free trade | Free trade, Liberalization | WTO regime |
| GDP Growth | 6.80% | 4.80% | 6.50% | 4.60% | 8.4%(04/05) |
| Manufacturing Sector | 9.90% | 5.50% | 8.20% | 4.80% | 12.5%(04/05) |
| Investment ratio as % of | | 15.90% | 17.00% | 16.60% | 15.3%(04/05) |
| Of which, Public Investment*1 | | 10.30% | 9.20% | 7.50% | 4.4%(04/05) |
| Of which, Private Investment*1 | | 5.60% | 7.80% | 9.10% | 10.9%(04/05) |

*1 : Government of Pakistan(2005), Economic Survey 2005

Source : JICA Study Team

***Table 1*** *Industrial Progress*

Pakistan's industrial policy has evolved over the years, beginning with the import substitution industrialization that occurred after the country gained its independence, continuing through the nationalization policy of the 1970s, and ending with the current privatization and public-private partnership (PPP). The manufacturing sector's growth rates were stagnant in the 1970s and 1990s as a result of political instability and policy changes, but they have been increasing since 2002. A draft report titled "Towards a Prosperous Pakistan: A Strategy for Rapid Industrial Growth," released in January 2005 by the special of the Ministry of Industries, Manufacturing and Initiatives (henceforth, the Ministry of Industries), outlined a strategy for rapid industrialization necessary to realize "Vision 2030".

The Ministry of Industry intends to adopt specific guidelines based on this paper after formal government approval. The study proposes a "incentive approach" rather than programs to assist specific industries, which it believes have been inadequate. "An outdated industrial policy approach that seeks to encourage a specific group of industries to the detriment of others, it is avoided for the simple reason that it rarely works," it says. The incentives method, on the other hand, with a modern orientation, is at the center of the proposed plan. One of the strategy's primary goals is to offer the right incentives for the investment of the sector by cutting expenses that dissuade potential investors. The strategy leaves it up to the discretion of the private investor to determine which individual manufacturing operation is best suited for it. Executive Summary, Pakistani Government, 2005, page 1. Nonetheless, no specific sector analysis or suggestions for policy were presented. Rather, the text included detailed recommendations for land, taxation, regulation, infrastructure, and human resources.

Pakistan's industrial policy has evolved over time, beginning with import substitution industrialization after independence, continuing through the 1970s nationalization policy, and culminating with the current the privatization and public-private partnership (PPP). Growth rates in the manufacturing sector were static in the 1970s and 1990s due to political insecurity and changes in policy, but they have been improving since 2002. A proposal for a report titled "Towards a Prosperous Pakistan: A Strategy for Quick Industrial Growth," released in January 2005 by the Ministry of Industries, Manufacturing, and Initiatives (henceforth, the Ministry of Industries), outlined a rapid industrialization strategy required to realize "Vision 2030."

### 4.3 Governmental Institutions Federal Institutions

It is typical for industrial policy to engage numerous government bodies because industrial growth encompasses many different policy areas, including trade, tax, labor, and industrial development. The following governmental bodies are active in industrial development in Pakistan (see table 2 for those concerned in the development of human resources):

| Organization | Function |
|---|---|
| Ministry of Industries, Production and Special Initiatives | Industrial development（Under the Ministry, Engineering Development Board（EDB） is responsible for engineering industries, Small and Medium Enterprise Development Authority (SMEDA) is responsible for SMEs） |
| Ministry of Textile Industry | Development of textile industry |
| Ministry of Information Technology | Development of IT industry, IT infrastructure development |
| Ministry of Commerce | Trade and custom（Under the Ministry, Export Promotion Bureau（EPB） is responsible for export promotion） |
| Board of Investment | Investment promotion |
| Central Board of Revenue | Tax administration |
| Ministry of Labor and Manpower, & Overseas Pakistanis | Labor policy, Labor regulations |

'Export Promotion Bureau（EPB） is planned to be restructured to Trade Development Authority of Pakistan(TDAP) as an autonomous body.

Source：Government of Pakistan

***Table 2*** *Trade and Development*

Here is a review of the tasks and responsibilities of the industry-related government agencies, including the Ministry of Industry, the Ministry of Textiles, the Ministry of Information Technology, the EDB, and the SMEDA. The demarcation and the interactions between the Ministry of Industry and the EDB are the main topics of discussion.

The Ministry of Products, Special Projects, and Industries There are four powers that make up the Ministry. The following is a summary of the roles and linked organizations of each wing:

| | Investment & Facilitation | Policy & Implementation | Corporate Sector | Special Initiative |
|---|---|---|---|---|
| Function | ・Monitoring of industrial trends<br>・Investment promotion<br>・Coordination with the private sector<br>・Tariff rationalization | ・Policy formulation /policy review<br>・Sectoral study<br>・Pharmaceutical industry<br>・Legal issues<br>・Coordination for Trade/WTO issues<br>・Coordination with chambers | ・Supervision of public sector corporations<br>・Privatization | ・Implementation of Special Projects<br>・Non-manufacturing, non-traditional industries<br>・Capacity development of the ministry<br>・Cross-sectoral issues |
| Related Organization | SMEDA<br>EDB<br>Patent and Design Office | | PIDC<br>EPZA<br>PITAC<br>Other public corporations | TUSDEC<br>NIPDMC<br>Pakistan Dairy Development Company etc. |

Source：Ministry of Industries（http://www.pakistan.gov.pk/ministries/index.jsp?MinID=13&cPath=142）

***Table 3*** *Roles and Linkages of Organizations*

In 1993, the previous Ministry of Industry, which was in responsible of developing industrial policy and regulations, and the subsequent Ministry of Production, which was in charge of overseeing public industrial units, merged to form the current Ministry of Industry. After the creation of the Special Initiatives Wing, which manages the Prime Minister's special assignments, the Ministry was retitled the Ministry of Industry, Production and Special Initiatives in 2004. The Ministry is structured as previously said, with divisions based on functions, making it unsuitable for promoting the various industries.

The Minister of Industry has the power to adopt these draft policies even if EDB, SMEDA, and others write them for the Ministry of Industries' metal industries, SMEs, and other sectors. Attempts would be finished to include these groups from an primary phase of policy creation if the policy concerns topics that are the responsibility of other governmental agencies, such as the Department of Trade or the Central Board of Revenue (CBR). The execution of the policies, however, is left to the entity in charge after they have been authorized, and the ministry lacks the power or a monitoring system to ensure that they are carried out. The private sector should be involved in the creation and execution of industrial policy, according to the Ministry of Industry. Nevertheless, there aren't many organizations in the private sector that are capable of working with

governments. The All Pakistan Textile Mill Association (APTMA) is one of the few private groups capable of analyzing market trends and recommending specific policy changes to the government. Because the Ministry of Companies believes that many Chambers' members should be traders and that industrialists' views are not adequately represented in the organization as a whole, it appears that the the Department of Industries does not regard the Chambers of Commerce and Industry as reliable partners or reliable sources of information.

The Government and private industry associations now have a distant working relationship. Only information pertaining to these associations' business is requested by the Government. For instance, the Ministry regularly tracked the production trends of 32 important products, and it received its production statistics mostly from the relevant trade organization. The Ministry frequently draws attention to the fact that this data is not always reliable and consistent. Another justification for the Ministry's lack of confidence in private industry associations as potential partners is this. It is anticipated that there will be a considerable need for the upgrading of these industrial groups' secretariats. The ministry itself recently established the Pakistan Business Council, a think tank made up of 18 renowned retired businesspeople, as a result of its frustration with industry associations. The ministry anticipates that this council will offer economic policy advice and serve as a conduit between the public and private sectors. Although interaction with other ministries and governmental organizations is occasionally necessary, it is not extremely usual. Only when the government negotiates the budget or trade strategy should the relevant ministries or agencies come together to coordinate their perspectives and interests. The EDB for the engineering sector and SMEDA for SMEs are in charge of monitoring policy implementation. Communication with other federal departments on policy topics, however, must go through the Minister of Industry. In addition to the aforementioned, the Ministry of Industries has three separate research organizations for dairy products, marble, and valuable stones under the special initiative wing, as well as the Scientific Skills Development and Updating Company (TUSDEC), which aims to support advances in technology. Industry modernisation.

Department of Textile Industry With the goal of reviving Pakistan's largest industrial sector—the textile industry—the Ministry of Textile Industries was created in September 2004. The following are the Ministry's primary responsibilities: I Creating a policy for the textile industry ii) Coordinating with federal, provincial, and municipal government institutions and agencies to facilitate and promote the textile sector iii) Cooperating with regulatory authority organizations

and international donor agencies iv) Establishing standards and ensuring that they are followed v) Textile industry statistics, surveys, and information sharing. The ministry is working on the creation of a textile industry policy and the implementation of projects like Ciudad Textil and Ciudad de la Confección that are related to the textile industry. Minister of Commerce The organization that creates trade policies is assumed to be the Ministry of Commerce. The Ministry releases its trade strategy each year. The policy contains incentives for new industries as well as measures for important ones like the textile and export promotion plans. The Ministry's primary responsibilities include developing human resources for trade promotion (Export Promotion Office), controlling the trade management system, issuing export/import licenses, and establishing trade policy. Moreover, this ministry is at now in the process of negotiating its free trade agreement with Bangladesh, Thailand, and Indonesia. Fourth) Ministry of Information Technology By detaching the Information Technology/Telecommunications Division from the Ministry of Science and Technology, the Ministry of Information Technology was founded in 2002 to support Pakistan's IT industry. Some of the Ministry's key responsibilities include the standardization of e-governance within the government, the expansion of the software industry, the development of IT infrastructure, and the expansion of IT industry human resources. 5) Engineering Development Board (EDB) EDB's role is to enhance and integrate the engineering industry with the global market in order to make it the engine of economic growth. The EDB's primary responsibility was to oversee the automobile industry's Industry Specific Cancellation Program (ISDP) (see also 3.2.1), but since the ISDP was replaced by the indigenization program in 2006, the EDB's original function has shifted. Tariff structure.

EDB underwent considerable restructure in 2004 as a result of the inclusion of Expert Advisory Cell, a Ministry of Industry research division. Following the restructuring, EDB's principal mission switched from regulation to "facilitation" of private-sector activity. At this time, the four departments that comprise the EDB each execute the following tasks: The Sector Development Group, which is part of the new organization, identifies the current condition and difficulties in each area and reports to the Policy Development Group and the Board of Rates. Under the tariff-based system, the Tariff Group is in responsible of administering and planning automotive indigenization, whereas the Policy Development Group creates policies for the engineering industries. The Business Development Group is involved in activities to enhance engineering product export. EDB employed over 40 experts as of August 2006. The Engineering

Industries Policy is developed by the EDB Policy Development Group, however as previously stated, the Minister of Industry has the final say on whether it is accepted. While the EDB would oversee policy implementation, interactions with other ministries that require approval must go through the Ministry of Industry.

| | Policy Development Group | Sector Development Group | Business Development Group | Tariff Group |
|---|---|---|---|---|
| Function | ・Integrate engineering sector development policies with other policies | ・Sector analysis | ・Facilitate participation of engineering sectors in international/ national exhibitions | ・Campaign for anomalies of tariff |
| | ・Work related to WTO, SAFTA | ・Establish regional offices | ・Creating networking among Pakistani companies | ・Indigenization of automobile |
| | ・Coordination with EPB, SMEDA etc | ・Formulation of sectoral committees | ・Match making with foreign companies | ・WTO related activities on tariff |
| | ・Monitoring of policy implementation | ・Setting quantitative targets | ・Export promotion/ Human resource development | ・Liaison with CBR and Associations etc, for tariff rationalization |

Source : EDB (http://www.engineeringpakistan.com/EngPak1/index.php)

***Table 4*** *Organizations Functions and Working Context*

Although the institutional adjustment to encourage private entrepreneurship is admirable, there is still need for improvement in the creation and application of sector-specific policies due to a lack of qualified personnel and the power or mechanism to ensure implementation3. Furthermore, because EDB attempts to cover so many different industries, the focus is muddled and the viability of the programs is called into question. However, this system was just recently implemented and is being run by new leadership. Only five subcommittees, including those for sewing machines, energy meters, electrical assembly, automobile components, standardization, and international certification, were established in 2005. According to reports, each subcommittee will have five to 10 members, and it will meet three to six times a year on average. A newly formed subcommittee, at EDB's request, is the electrical assembly. Despite the fact that EDB covers a wide range of industry areas, it appears that its sources of information are very limited. Their promotional strategies' efficacy would be unknown. The influence that EDB has over the auto industry and its components is another source of frustration. Before the institutional change, EDB allegedly maintained a consistent attitude to support the automotive and component sectors, according to the two associations (DAMA&PAAPAM). In order to represent the interests of the

automobile and component industries, EDB was an active participant in coordinating interests with federal ministries, government entities, and even other sectors. The industries did not need to bargain with other public or private groups because they could rely on EDB. However, as a result of the institutional shift, associations for the automobile and component industries should contact each institution independently, as they can no longer rely on EDB to promote their interests and collaborate with others. These organizations, particularly the auto parts association, were also quite upset with EDB for entering the issue about bringing old autos to the government without first having a thorough talk with them. 5) SMEDA (Small and Medium Enterprise Development Authority) SMEDA was established in 1998 with the objective of establishing policies and providing services to SMEs. There are around 180 people, 75 of whom work at the Lahore headquarters and the others at field offices. The structure and operations of SMEDA are shown in the table below:

| | Policy Planning | Business & Sector Development Service | Out-Reach | Innovation and Competitiveness |
|---|---|---|---|---|
| Function | ・Formulation of SME policy, provision of SME-specific inputs in other policies<br>・Coordination with related organizations<br>・Information dissemination<br>・Institutional capacity development | ・Financial/ legal services<br>・Sectoral study/ strategy development | ・Outreach through four regional offices, and 20 regional business centers<br>・Cluster development program<br>・Provision of training<br>・Industry support (textile, automobile, furniture) | ・Industry-Academia linkages<br>・Incubation<br>・Innovation |

Source：SMEDA（http://www.smeda.org/）

[4] There are 15 target sectors including automobile, Electronics and IT.

***Table 5*** *SMEDA*

SMEDA is focusing on generating awareness as a focal area for the development of SMEs. MBA coordinators offer SME clients advice at 20 regional business support centers. To service the needs of SMEs, these provision hubs are typically situated on the grounds of home-grown compartments of commerce or district governments. 5 3) SMEDA's duties are thoroughly covered. 6) Export Promotion Bureau (EPB) The Ministry of Commerce's Export Promotion Bureau (EPB)

provides the following to manufacturing facilities.

| | |
|---|---|
| Marketing | Market Research<br>Fairs and Exhibitions - local and international<br>Overseas and local publicity<br>Seminars/Conferences/Workshops, etc. |
| Facilitation | Counseling<br>Simplification of procedures<br>Establishing buyer-seller contacts<br>Deliver information |
| Regulatory | Formulation of proposals for the Trade Policy<br>Implementation of Trade Policy<br>Textile Quota Management<br>Registration of Importers/Exporters<br>Registration of Export Contracts<br>Determination of Minimum Export Prices<br>Issuance of GSP Certificates |
| Service tc exporters tc strengthen competitiveness | Skill development<br>Establishment of training institutes for textile, leather, surgical goods, gems and jewelry, for training and development of human resources for export-oriented industries (Export Development Fund, which is 0.25 % of the export cess, has been provided to 22 trade associations consisting of seven industries and the total fund is Rs. 2 billion since 1992).<br>Seminar on export related issues<br>Support for obtaining ISO9000 and ISO14000<br>Awareness raising on social issues such as child labor |

***Table 6*** *Industrial Services and facilities provided by Firms*

There are about 600 people working there in total. The EPB is currently working to transform it into the Business Development Authority, a semi-autonomous organization (TDA). The TDA is anticipated to launch in full in December 2006. The TDA will continue to promote Pakistani exports using the expertise of the private sector in a thorough manner after restructuring the bureaucratic structure of the EPB. TDA will begin by aiding with the development of export products as well as export marketing. The EPB will collaborate with the Ministry of Industry, Manufacturing, and Special Initiatives, the Ministry of Food, Agriculture, and Livestock, local governments, the federal government, and the State Bank of Pakistan to facilitate the entire supply chain and enhance exports. Following the transformation, TDA will engage private-sector specialists for staff and management. The Federal Trade Minister would preside over the TDA, which would be led by a Chief Executive Officer (CEO).

Under the guidance of the minister of commerce, TDA will establish a political committee comprised of representatives from the government, business, and commerce to oversee the new

authority's functioning. TDA's general director will be hired by the private sector. Under the general manager, 18 departments will be developed, including planning, marketing, information technology, research, human resource management, finance and administration, and export business service. TDA's employee pay will be extremely modest and in line with market demands. If the council is unable to resolve a problem, the prime minister and cabinet will preside over a federal export promotion council. TDA will strengthen and institutionalize current face-to-face interactions with the private sector. Each major product board will be comprised of eight to ten private individuals and two to three TDA personnel. Members of private sector boards are required to be legal and financial professionals, as well as representatives of business/trade associations. The board will meet on a regular basis to discuss issues such as infrastructure.

Board chairs must be from the private sector. EPB participated in the UNIDO's "Cluster Development Project" in order to follow the supply chains of exported commodities, which was started in 2001 and is aimed at exporting SMEs. EPB contributed $0.21 million in financing through the Export Promotion Fund. The Punjab government once supported seven cluster development programs through the Punjab Small Industries Corporation, however this is no longer the case. EPB is the only organization that favors cluster growth for this purpose. EPB deploys specialists as Cluster Development Agents to clusters that have aided EPB in conducting training programs. However, due to jurisdictional constraints, EPB's efforts are limited to export promotion; it can only inform the public about exports and promote awareness of them; it is unable to study domestic markets. TDA's limited financial commitment is expected to boost SME exports.

EPB has participated in UNIDO's "Cluster Development Programme" since 2001 to track export supply chains for small and medium-sized businesses (SMEs). EPB received US$ 0.21 million from Export Development Funds. A number of cluster development programmes were previously supported by the Punjabi government through Punjab Small Industries Corporation. As a result, EPB is the only organization promoting cluster growth. EPB sends Cluster Development Agents to facilitate cluster training programs. As EPB is limited in its activities, it is primarily responsible for disseminating and promoting export knowledge. It does not have the authority to investigate domestic markets. Exporting more goods and services will be easier if SMEs invest in TDA.

| Names of Plans | Contents |
|---|---|
| Carpet City Plan | Households make carpets in small villages at present and TDA wants to make a cluster of carpet producers in a certain area. The government of Sindh has already decided to provide land for the purpose. |
| Warehouse City Plan | There is no appropriate warehouse in Karachi in spite of the fact that it is a port city. TDA plans to establish modern warehouses, which can function as a local hub. |
| Women Entrepreneurship Plan | TDA plans to provide services for incubation to women entrepreneurs. The government of Singh decided to provide a land and the building for that purpose. Starting costs of each business are to be born by women entrepreneurs. |
| Gems & Jewelry Plan | A cluster of gems & jewelry producers will be established near the port in Karachi. The land has already prepared. |
| Overseas Expor Promotion Hubs Plan | Commercial attaché working in embassies in a world have not promoted exports effectively so far. TDA needs to establish its own overseas export promotion hubs. |

***Table 7*** *EPB classified Roles*

EPB aims at promoting the following items in addition to the existing export items.

・IT, Fruits, Fisheries, Marble & Granite, Gems & Jewelry, Chemicals, Medicine, Engineering, Meat, Services such as construction, accounting and tourism.

### 4.4 Second Relations among Federal, Provincial/ District Government

The table below shows industry related functions of Federal, Provincial and District Government. The table adopts the case of Punjab to explain province.

| | Federal | Province (Punjab) | District (Punjab) |
|---|---|---|---|
| Organization | Ministry of Industries | Industries Department | District Officer (Enterprise & Investment Promotion) |
| Function | ・Formulation of Industrial Policy<br>・Sectoral Study<br>・Monitoring of industry trend<br>・Investment promotion<br>・Public corporation<br>・Privatization<br>・Implementation of special projects | ・Supporting Investors<br>・Industrial statistics<br>・SME assistance/ Establishment of Industrial estate<br>・Vocational training<br>・Price control of essential commodities<br>・Mine Development Management<br>・Recommendation to Industrial related policies | ・Planning and development of cottage /small industries<br>・Control of prices of essential commodities<br>・Organizing industrial exhibitions<br>・Up-dating district pre-investment studies<br>・Collection of census data<br>・Preparation of industrial directory<br>・Registration of firms/ associations<br>・Feedback to industrial/ trade policies<br>・Liaison with chambers |
| Related Organization | EDB、SMEDA、PITAC<br>TUSDEC etc | PSIC、PIEDMC、TEVTA<br>PPSB etc | None |

Source: Government of Pakistan、Government of Punjab (http://203.215.180.58/portal//portal/) 、

***Table 8*** *Federal/Provincial/District Government Industrial Functions*

District Officers (Enterprise & Invest Promotion) are responsible for regulating the prices of goods, planning industrial exhibitions, registering businesses, and collecting industrial statistics according to the Devolution Plan 2001. They can also suggest any development initiatives to support SMEs in the district. Due to this shift, the Entity & Investment Promotion District Officers have been transferred to the District Government. For local governments that are close to local industry, Being able to execute assessments and make planning decisions for localized industrial growth would be a significant step forward, but they lack the ability and/or willingness to do so.

As a result, the Provincial Industries Department claims that District Officers assigned to it adhere to the District Government's directives more often, as well as their original responsibilities, which include collecting census data, are not adequately addressed, which results in a bottleneck in the information flow required to develop industrial policies.

Various levels of government machinery for industrial growth suffer from shortcomings and contradictions, as discussed above. It is becoming increasingly difficult for district governments

to handle their newfound obligations, which complicates the vertical connection with the federal government and opens the door for policymakers to hear from local governments.

EDB and SMEDA also conduct studies and develop policies concurrently, without necessarily assessing how well they interact or how well they work with broader frameworks for industrial development. The creation of policies is more effective when connected organisations and relevant government agencies work together. The current enforcement mechanism does not, however, have any real effect. As a result of the vacuum and lack of coordination, scarce government resources have been further fragmented.

## 4.5 The Current State of the Public-Private Partnership

### 4.4.1 Organization of a Business

In Pakistan, business associations are classified into two categories: district-based Associations of Commerce and Industry and industrial associations. Associated with 48 chambers and 124 industrial groups, the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) is the country's top business association. It is the FPCCI that represents Pakistan's private sector against the government and other countries. A Pakistani business organization is listed in the table below, based on the Trade Organisation Ordinance.

Chambers typically campaign on regional concerns such as regional transportation and dispute resolution, whereas industrial groups focus on tax issues such as customs and sales tax. In some cases, industry groups serve as focal points for federal funding, or as management organizations for shared facility centers that receive federal funding. It appears that many associations are inactive, despite the fact that some are quite active. Several organizations have failed to represent industry interests, As a result, its members have sought representation from the government directly.

In many organizations, the executive committee is dominated by leading firms, which can lead to problems being politicized and SMEs being ignored. Although business associations are often criticized for being political and closed during company visits, they are also recognized as excellent tools for negotiating with the government, which can be challenging for small companies.

Business organizations are viewed by government representatives as their private sector equals, but they emphasize that their requests sometimes are unreasonable and unfeasible. Several private businesses have also criticized their association's strategy as unhelpful. The organization may lose its members' support if it does not constantly update itself and extend its viewpoint

towards long-term prospects.

Commercial organizations with private budgets and institutional capacities, including chambers of commerce and industry, exist. Approximately 0.5 million dollars is the annual budget of FPCCI (the Federation of Pakistani Chambers of Commerce and Industry).

Twenty percent of a company's revenue is generated by membership fees in local chambers of commerce and industry. Earnings from projects, particularly the Export Award commendation, are among the additional sources of income. Each FPCCI Standing Committee consists of seven to twelve members. Meetings are held on a regular basis by some committees, but not by others. Many of the Standing Committees did not meet in 2003, according to the FPCCI Annual Report.

Table 3-7 Business Organizations in Pakistan

| | FPCCI | Chamber of Commerce and Industries | Industry association |
|---|---|---|---|
| Level | National level | District level | Individual industry |
| Location | Karachi, Lahore, Islamabad | District center | Major cities for respective industries. In many cases, associations have offices in both Karachi (South) and Lahore (North) |
| Aim | ・Represent all private sector to the government<br>・Represent private sector to other countries | ・Represent interests of private sector in the District | ・Represent interests of specific industries<br>・In a big industries, there may be separate associations for manufacturers, importer/ exporter, and merchants |
| Function | ・Lobbying(Federal level)<br>・Information dissemination<br>・DB, WTO resource center<br>・Study/ Research<br>・Delegation | ・Lobbying（District/ Province/ Federal）<br>・Delegation<br>・Dispute resolution<br>・Issuance of certificates | ・Lobbying（Federal）<br>・Exhibition/Delegation<br>・Information dissemination (Newsletters)<br>・Issuance of certificates |

Source: JICA Study Team

***Table 9*** *Business Organizations in Pakistan*

The FPCCI's most essential job is to provide ideas on the government budget as well as trade policy. According to the Annual Report 2003, more than 100 ideas were given to the government

that year on eight areas, including tax rate, tariff rate, and SME support.

The FPCCI makes recommendations to the government regarding its budget and trade strategy. As outlined in the 2003 Annual Report, the government received over 100 ideas on tax rates, tariff rates, and SMEs' support.

Taxes and tariffs are commonly lowered through initiatives. A background or business-related description of these proposals is not included. It's hard not to conclude that these recommendations are just a collection of wish lists from the concerned interest groups. There are nine qualified employees working for the FPCCI's secretariat.

Apparently, just one director is in charge of research. FPCCI is substantially less organized than the Federation of Malaysian Manufactures (FMM), which employs 150 professionals. The FPCCI's precise policy suggestions are unlikely to be supported by expert examination of significant business data and information. In large cities like Lahore and Karachi, there are numerous regional chambers of commerce and industry that operate in a variety of areas. The Lahore Association of Commerce and Industry has 91 standing committees and organizes international trade missions, fairs and exhibitions, and management training courses, according to its Annual Report from 2005.

There are numerous industry associations around the country. Some associations are quite small, while others are rather huge. According to the Ministry of Industries, the APTMA secretariat, which is supported by expert analysis of data and information on the sector, is one of the few organizations with a professional secretariat. Many other industrial groupings do not even have a secretariat. PAMA (Pakistan Automobile Manufacturers Association) was able to open its own secretariat office in 2006 despite having just five regular staff.

### 4.4.2 Public-Private Partnership Promotion

Economic recovery has been the priority for the current administration since day one, and the private sector greatly values its commitment to maintaining consistent policies. The term "public-private partnership" appears in every industrial development policy paper, and policymakers must listen to private enterprises. As part of their efforts to ensure that their opinions are heard, the government agencies directly associated with the industry, such the Ministry of Industries, EDB, and EPB, for example, are undergoing transformation to transition from supervisors to facilitators. TUSDEC is a brand-new institution that is government-owned but administered by the private sector.

There is no doubt that these initiatives deserve a great deal of recognition. In fact, businesspeople who serve on the boards of public agencies or work on public-private partnerships support public programs and make them a reality. A private businessman's involvement in policy implementation and monitoring can ensure proper implementation by taking into account his own opinions. It is, however, ineffective to absorb personal opinions. Their own sector might not be accurately represented by these independent businessmen. The businessmen often join individually, despite the fact that they are outstanding managers.12 They cannot represent the sector if they join individually.

There have been times when associations were unaware of a federal agency's plans for their sector, or when the government was present, they invited only the upper management of the largest business in the field, but not the representative of the industry organization. In spite of the fact that associations are not always capable enough, it is essential that effective mechanisms be created to bring together the voices of the entire industry.

Government officials perceive the private sector as only presenting wish lists because of the manner in which private associations are run. It is important to create an efficient mechanism of gathering all industry opinions, even though associations aren't always capable.

Additionally, viability needs to be considered. There should be no postponement or abandonment of commendable activities owing to bureaucracy, official transfers, or governmental changes, as has been the case in the past. There is a widespread belief among private businessmen that Pakistan's government can formulate policy, but is ineffective when it comes to implementing it. Results must be produced as soon as possible if we wish to earn the trust of the private sector. Additionally, viability needs to be considered. There should be no postponement or abandonment of commendable activities owing to bureaucracy, official transfers, or governmental changes, as has been the case in the past. There is a widespread belief among private businessmen that Pakistan's government can formulate policy, but is ineffective when it comes to implementing it. Results must be produced as soon as possible if we wish to earn the trust of the private sector.

### 4.4.3 Views of Manufacturing Establishments on Industry Association

As part of the study, 500 manufacturing facilities were surveyed via questionnaire. In total, 86% of the population was represented. Sector ratios do not clearly differ. Only about 10% of

businesses joined any industry organizations. Several reasons led to these businesses not joining. 50 percent of respondents said they did not make any effort themselves. It is followed by a statement stating that our company is not particularly concerned with the industry organization nor its role.

(1) Rate of Affiliation

| | Yes (%) | No (%) | Total Answers |
|---|---|---|---|
| Textile Clothing | 88 | 12 | 211 |
| Food Processing | 89 | 11 | 71 |
| Automobile & Parts | 85 | 15 | 39 |
| Electronics | 93 | 7 | 14 |
| Chemicals | 86 | 14 | 57 |
| Housing related | 80 | 20 | 102 |
| IT | 50 | 50 | 6 |
| Others | 75 | 25 | 8 |
| Overall | 86 | 14 | 508 |

Source: JICA: Pakistan Manufacturing Establishments Survey 2006

(2) Reasons Not be the Members

| | Total Answers | % |
|---|---|---|
| We ourselves did not make any effort. | 59 | 53 |
| There is no business association relevant to our business. | 26 | 23 |
| The role of the business association is limited. | 12 | 11 |
| The services of the business association are not attractive. | 7 | 6 |
| The membership fee is too high for its service. | 1 | 1 |
| No Research Facilities Available | 1 | 1 |
| Applied for Membership | 1 | 1 |
| Tried to make association | 1 | 1 |
| We have our own strategy & Policies | 1 | 1 |
| Total answers | 111 | 100 |

Source: JICA: Pakistan Manufacturing Establishments Survey 2006

***Table 10*** *Relationship of the surveyed Institutions to Industry Relations*

### 4.4.4 Services from Industry Associations

Members of industry associations were asked about their services by surveyors. In order to assess the quality of services provided by the sector association, the surveyors asked about accessibility. The majority of respondents (77%) indicated that they had used the services of their industry association at some point. It varies from sector to sector. There was no assistance provided

by the association to respondents in the automobile or chemical industries, compared to 83% in the textile industry. Among the industry organization's services were informing the government about domestic regulations and policies, providing data on the home market, and expressing the collective opinion of the industry (see Table 10).

A majority of the association's respondents indicated that they would like to receive information about domestic and foreign markets. It would be beneficial for industry associations to provide the latest market information to their members, both domestically and internationally.

| | Yes (%) | No (%) | Total Answers |
|---|---|---|---|
| Textile Clothing | 83 | 17 | 186 |
| Food Processing | 73 | 27 | 63 |
| Automobile & Parts | 70 | 30 | 33 |
| Electronics | 77 | 23 | 13 |
| Chemicals | 69 | 31 | 49 |
| Housing related | 73 | 27 | 82 |
| IT | 100 | 0 | 3 |
| Others | 50 | 50 | 6 |
| Overall | 77 | 23 | 435 |

Source: JICA: Pakistan Manufacturing Establishments Survey 2006

***Table 11*** *Availability of Services from the Industry Institutions*

| | Total Answers | % |
|---|---|---|
| Providing information about domestic policy & regulations | 84 | 19 |
| Providing domestic market information | 60 | 14 |
| Delivering your industry's collective views on the policy to government | 57 | 13 |
| Providing information about international regulations & agreement | 56 | 13 |
| Providing overseas market information | 54 | 12 |
| Arranging business meetings with local business representative | 40 | 9 |
| Delivering industry's collective views to improve the service | 39 | 9 |
| Arranging business meetings with overseas business representative | 36 | 8 |
| Other services | 12 | 3 |
| Total answers | 438 | 100 |

Source: JICA: Pakistan Manufacturing Establishments Survey 2006

| | Total Answers | % |
|---|---|---|
| Providing information about domestic policy & regulations | 33 | 10 |
| Providing domestic market information | 42 | 13 |
| Delivering your industry's collective views on the policy to government | 35 | 10 |
| Providing information about international regulations & agreement | 36 | 11 |
| Providing overseas market information | 46 | 14 |
| Arranging business meetings with local business representative | 36 | 11 |
| Delivering industry's collective views to improve the service | 37 | 11 |
| Arranging business meetings with overseas business representative | 36 | 11 |
| Other services | 35 | 10 |
| Total answers | 336 | 100 |

Source: JICA: Pakistan Manufacturing Establishments Survey 2006

***Table 12*** *Categories of Services Offered by Respondents to Industry Associations*

### 4.4.5 Evaluation of the Impact of Industrial Associations

To determine the importance and satisfaction level of the associations' services, establishments were surveyed. Seventy-two percent of the respondents said it was very significant (see table 11-12). It was estimated that more than 90% of defendants, including those who selected important, considered industry associations to be significant institutions. When asked about their degree of satisfaction with the industry association's services (see Table 11-12), 80% said they were satisfied.

| | % | Answers |
|---|---|---|
| Very Important | 72 | 240 |
| Important | 24 | 80 |
| Not Important | 4 | 13 |
| Overall | 100 | 333 |

Source: JICA: Pakistan Manufacturing Establishments Survey 2006

Table 3-13 Satisfaction to the Services of Industry Association

| | % | Total Answers |
|---|---|---|
| Yes | 80 | 266 |
| No | 20 | 67 |
| Overall | 100 | 333 |

Source: JICA: Pakistan Manufacturing Establishments Survey 2006

***Table 13*** *Valuation of the Status of Industry Institutions*

### 4.4.6 Industrial Development Issues

Three difficulties have been identified for Pakistan's current industrial growth.

**(1) Focus Deficit**

Current government policy offers investors incentives, not subsidies, to enable them to invest in certain businesses. When capital, labor, and technology are lacking in Pakistan, it is extremely idealistic to believe that incentives will only encourage competitive sectors to grow. Despite the impossibility of purposefully developing the various industries, the long-term growth plan must decide how the industry will be structured, and a strategic program must be developed to accomplish this. In contrast to a lack of comprehensive regulations for major industries like electronics and chemistry, smaller businesses like gems, marble, and dairy have a variety of policies, incentives, as well as their own development corporations.

Additionally, it raises the question of how to prioritize industrial development amid the belief that boosting particular businesses is ineffective. Decisionmakers have become convinced that promoting a particular industry is ineffective, resulting in a neglect of efforts to understand how these industries function, develop a comprehensive and cogent development strategy for those industries, and plan the nation's future industrial structure. Using the term "facilitator" to describe themselves seems to be a justification for ignoring necessary industrial structures and policies. All stakeholders should discuss whether industrialization can only be achieved with right incentives.

**(2) Method for Assuring Policy Obedience**

In current administration structures, policy creation is given more weight than execution and oversight. Additionally, the implementation procedure and roadmap for the policy might be hazy at times. The policies are not being implemented efficiently due to a shortage of authorities. As a result of their staffing levels and the large number of policies they must develop, the government claims policy development divisions are responsible for monitoring. Moreover, the large number of ministries and organizations involved makes it difficult to track policy implementation without an effective coordination framework. There doesn't appear to be a mechanism in place for that. The importance of implementing policies cannot be overstated. A better way needs to be found to implement and monitor policies, especially the coordination between different departments and agencies.

***(*3) Improved Public-private Partnership**

There is still a lot of work to be done in Pakistan to create true public-private partnerships. Public-private relations have not reached their full potential, despite the government's plans being

widely respected. On the one hand, the private sector is inclined to look to the government as a source of protection, while on the other hand, the government ignores or overlooks the true needs and complaints of the private sector. It is imperative that the private sector regains its independence in order to compete in today's global economy. A better understanding of the reality of industrial sectors, especially significant ones, is needed by the government.

A complete industry picture can only be provided by top businessmen. In order to observe what is going on in factories, government representatives must personally visit them. It becomes possible to have productive discussions about what both sides should do to ensure the successful growth of industrial development in the future after both parties make this attempt. Policies that can support industrial development can be developed and implemented based on established relationships between the public and private sectors.

# Chapter 5: Conclusion, Limitation and Future Direction

## 5.1 Conclusion

A political economy analysis of Pakistan's industrial policy was carried out in the present study. The Institutionalist political economics concept was used to describe key economic shifts affecting institutional structures. In the growth policies department, Pakistan was once among the leaders. It is thought that Pakistan was among the ten fastest growing economies in the world during 1960–90, despite being at the bottom and not in terms of per capita, due to the momentum of the earlier success period, some fortuitous circumstances that provided opportunities for "facile" growth, and expansionary fiscal policies. During those three decades, its GDP per capita grew faster than any other economy in South Asia. Nevertheless, this period also sowed the seeds for the subsequent stagnation. Although most poorly conceived populist policies, such as large-scale nationalizations, were reversed relatively soon, fiscal profligacy in the 1980s forced austerity policies. Since infrastructure investment bore the brunt of those austerity policies, Pakistan has little room to increase its expenditures on human development, as it so desperately needs.

It is debatable whether fiscal adjustment has been effective or not over the last 20 years, but it is unquestionable that the fiscal legacy of the 1990s has a detrimental impact on economic growth and transformation. During 1990–2010, Pakistan became the slowest growing economy in South Asia with related technological stagnation. As a result of the emergence of a politics–governance–security nexus inimical to investment and economic progress, these constraints became increasingly acute. Approximately 15 percent of GDP was invested, reflecting and adding to the malaise.

Several recent calls have emphasized the importance of reviving some form of Industrial Policy in Pakistan as a catalyst for economic revival. It is noted at the outset of this paper that many of the policy proposals are predicated on reducing conflict in the state. The phrase refers to the successful conclusion of the war on terrorism as well as some consistency or consensus in economic policy priorities and resolving conflict between economic and noneconomic objectives. In addition, rent seeking is included, along with how good or bad it is for economic growth. At this juncture, Pakistan is arguably especially at risk of such conflicts, which affect all societies in varying degrees.

The adoption of Pakistan's ISI (Import Substitution Industrialization) plan was critical to the

country's industrialization aspirations. To stimulate growth and protect indigenous producers from foreign competition, the government formed a governmental organization and financial institution. Foreign exchange was also made more inexpensive, and subsidies were granted. Despite East and West Pakistan's efforts to industrialize, the early industrialization plan ended up expanding the development gap between the two. Establishing participatory democracy credentials proved hard in a multiethnic and fractured Pakistani nation ruled by the civil and military bureaucracies.

Industrial and economic growth that was inequitable had significant ramifications. A militarized and bureaucratic state before 1971 failed to act as an entrepreneur capable of visualizing and setting up choice sets for higher levels of equilibrium in the allocation of economic resources despite visible industrial growth. People's social, political, and economic grievances were not dealt with by the state as a trustworthy conflict manager. Nevertheless, a small group of politically aligned people were partially satisfied by the state. There were a few opportunistic politicians, overtly industrialists and landlords, as well as big business houses and top bureaucrats. Although the small group had tried to ensure continuous growth in the manufacturing sector, they were unable to accomplish this. The power balance shifted immediately after 1971 in favor of the middle class, but it lasted only briefly. Despite efforts to industrialize and stimulate economic growth, Pakistan has struggled to establish itself as an entrepreneurial state in the same way that some of its East Asian peers have. The government has not adopted significant nationalization, land reforms, or administrative reforms, and it suffers from structural issues like as low human development and a powerful civil military bureaucracy. Despite this, Pakistan continues to strive for long-term industrial expansion and economic development. As a result, the institutions for resolving disputes and managing a project are fighting for their very survival due to a weak meta-institution of participatory democracy. In terms of technological capability and manufacturing sector growth, neoliberal reforms have been little help. Manufacturing investment is still lacking a big push, although distant direct speculation has enlarged in oil and gas, telecommunications, and finance.

The state must understand that its people are its ultimate savior, but its weapons of first and last resort are the state itself. Skilled workers are human capital, and unskilled workers are expressions of population explosion. The illiterate and deprived cause social unrest when trained as engineers and doctors. When respected, they are entrepreneurs, but when excluded from mainstream economic activities, they become fodder for anti-social canons. Nixson (2002) writes

that Pakistan must recognize that "industrialization is a necessary but not sufficient condition for development." It may be even more critical for Pakistan to learn from its failures in the past.

Creating an understandable development vision and industrial regulation is an initial step toward rapid industrialization. Industrial policy should be followed by labor policy, competition policy, and foreign direct investment policy. Increasing spatial and income inequality is a major challenge in industrial policy, which has produced socially and politically inefficient results. Re-distribution is a key component of industrial policy that must be addressed. The state is not only responsible for facilitating and facilitating change, but also building institutions that can facilitate an equitable structural change through their enterprise and institution building.

Pakistan's industrial policy and political economy have a long and complex history and are subject to various external and internal factors. Over the years, the country has experienced a series of successes and setbacks in terms of industrial development, with periods of growth followed by periods of decline. In recent years, the government has taken steps to diversify the economy, reduce inequality and promote economic growth.

Currently, Pakistan's industrial sector plays an important role in the country's economy and accounts for a large share of GDP. The country has a wide range of industries, including textile and garment manufacturing, food processing, and chemical manufacturing. In addition, the government is investing in the development of new industries, such as renewable energy, with the aim of further diversifying the economy.

Pakistan's political economy is also a key factor in the country's industrial development. A number of political issues such as corruption, weak governance and lack of rule of law have hampered the development of the industrial sector. Additionally, the country's external debt has had a significant impact on the country's ability to invest in industrial development.

Pakistan's political economy and industrial policy have the potential to produce positive outcomes for the country. Over the years, Pakistan has made remarkable progress in its economic and political landscape, and with the right strategies and continuous efforts, the country can further improve its industrial sector and boost economic growth. Here are some positive aspects of Pakistan's political economy and industrial policy:

1. Strategic Geographical Location: Pakistan's strategic location at the crossroads of South Asia, Central Asia and the Middle East offers it immense potential for trade and economic cooperation. It serves as a gateway to regional markets and can act as a transit hub for trade and

connectivity initiatives, such as the China-Pakistan Economic Corridor (CPEC). This can attract foreign investment, stimulate industrial development and contribute to overall economic growth.

2. Young and Dynamic Workforce: Pakistan has a large and young population, which is a significant advantage for its industrial sector. With the right policies in place, the country can take advantage of this demographic dividend, providing skilled labor for various sectors. Investments in education and skills development can improve productivity and competitiveness, leading to sustained economic growth.

3. Industrial Diversification: Pakistan has recognized the importance of industrial diversification and reducing reliance on traditional sectors. Efforts are made to promote sectors such as information technology, pharmaceuticals, textiles and agri-food. These initiatives aim to foster innovation, improve productivity and generate employment opportunities. By diversifying its industrial base, Pakistan can reduce vulnerability to external shocks and ensure sustainable economic growth.

4. Infrastructure Development: Pakistan has embarked on major infrastructure development projects including CPEC. These initiatives focus on improving transport networks, energy infrastructure and connectivity. Upgrading infrastructure can facilitate industrial growth, attract investment and improve the ease of doing business. By developing strong physical and digital infrastructure, Pakistan can create an enabling environment for the development of industries.

5. Policy Reforms: Pakistan has undertaken policy reforms to attract investment, improve the ease of doing business and promote industrial competitiveness. Measures such as reducing bureaucratic hurdles, streamlining regulatory frameworks and providing incentives to investors demonstrate the government's commitment to promoting a business-friendly environment. These policy measures can encourage domestic and foreign investment, stimulate industrial development and create job opportunities.

6. International Cooperation: Pakistan actively seeks international cooperation to enhance its industrial capabilities. Partnering with countries like China, Turkey, and Malaysia in areas such as technology transfer, capacity building, and investment can bring expertise and resources that can positively impact industrial growth. Engaging in regional economic initiatives and trade agreements can also expand market access for Pakistani industries, promoting export-led growth.

While challenges persist, such as corruption, infrastructure gaps and the need for further reforms, Pakistan's political economy and industrial policy have the potential to yield positive

results. By leveraging its strategic advantages, leveraging its workforce, diversifying industries, investing in infrastructure, implementing effective policies and promoting international cooperation, Pakistan can strengthen its sector industry, stimulate economic growth and improve the standard of living of its citizens.

In conclusion, Pakistan's industrial policy and political economy have a complex history, with a series of successes and setbacks. The current government has taken steps to promote economic growth and diversify the economy, but significant challenges remain. To ensure the long-term success of the country's industrial policy, the government must continue to invest in the development of new industries while tackling the political issues that impede economic growth.

## 5.2 Limitations and Future Direction:

There is still a need for more research on the subject due to the limitations of this study. Only a small subset of Pakistan's industrial policy's political economy was examined in this study based on data available for an 18-year period. A macroeconomic perspective is also included in this investigation of policies and development. In the literature review part, it was demonstrated that Pakistan has a larger micro-level impact on development than most countries. Further research might be conducted to determine the specific factors contributing to the higher score.

Pakistan is a developing country with a thriving industrial sector. The country is embarking on ambitious plans to develop its economy, mainly through industrial policy, and political economy is an important part of this. However, there are a number of limitations to this approach as well as potential areas for future improvement.

In terms of limitations, the main problem is the lack of infrastructure in many parts of the country. It is therefore difficult to create and effectively operate industrial projects. In addition, there is a lack of access to financing and investment, which prevents the development of many projects. In addition, the absence of effective regulatory and legal frameworks can also hamper the development of industrial projects.

Despite the potential for positive outcomes, there are several limitations and areas that require attention in Pakistan's political economy and industrial policy. Recognizing and addressing these limitations will be key in shaping the future direction of Pakistan's industrial development. Here are some key areas of concern and future directions:

1. Governance and Corruption: Pakistan continues to face challenges related to governance, transparency and corruption. These problems can hamper the effectiveness of industrial policies

and create barriers to investment and growth. Fighting corruption through comprehensive reforms, promoting transparency and strengthening institutions will be key to creating an enabling environment for industrial development.

2. Infrastructure Development: Although infrastructure development has been a focus, there is a need to accelerate projects and close gaps in physical and digital infrastructure. Inadequate transportation networks, unreliable energy supplies and limited access to high-speed internet can hamper industrial growth. Future directions should involve prioritizing infrastructure development, especially in underserved regions, to support industrial clusters and enable seamless connectivity.

3. Skills development and education: Although Pakistan has a young workforce, there is a need to upgrade its skills and improve the quality of education. Emphasizing vocational and technical training programs, aligning education with industry needs and fostering innovation in educational institutions can ensure a skilled workforce that meets the needs of industries evolving.

4. Export Diversification and Competitiveness: Pakistan's industrial policy should focus on diversifying and expanding its export base. Currently, the country is heavily dependent on certain sectors, such as textiles, for exports. Promoting value addition, technological advancements and R&D in industries can improve competitiveness and open new markets for Pakistani products. Special economic zones and export processing zones can facilitate export-oriented industries and attract foreign direct investment.

5. Environmental sustainability: Pakistan faces environmental challenges including water scarcity, pollution and the effects of climate change. Future industrial policies should prioritize sustainable development and encourage environmentally friendly practices. Promoting clean technology, renewable energy and responsible waste management can mitigate environmental risks by encouraging industrial growth.

6. Regional Cooperation: Strengthening regional economic cooperation and connectivity initiatives, such as CPEC, can foster industrial development in Pakistan. Engaging with neighboring countries and regional organizations can facilitate trade, technology transfer and investment opportunities. Collaborative efforts in research, development and innovation can improve industrial capabilities and competitiveness.

7. Policy coherence and long-term vision: Ensuring policy coherence and a long-term vision are essential for industrial development. Frequent policy changes and lack of continuity can

discourage investment and create uncertainty. A clear and stable policy framework, underpinned by long-term planning and effective implementation, will build investor confidence and support industrial growth.

Addressing these limitations and focusing on the future directions outlined above will help strengthen Pakistan's political economy and industrial policy. By improving governance, investing in infrastructure and education, diversifying exports, promoting sustainability, strengthening regional cooperation and ensuring policy coherence, Pakistan can foster a strong industrial sector, attract investment , create employment opportunities and achieve sustainable economic growth.

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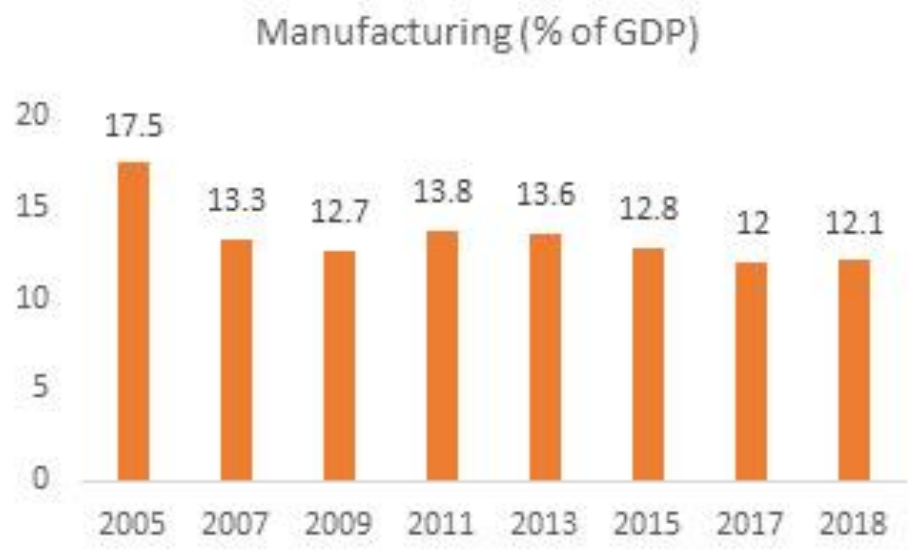
# Appendices

**A:**


**B:**

**C:**




**D:**

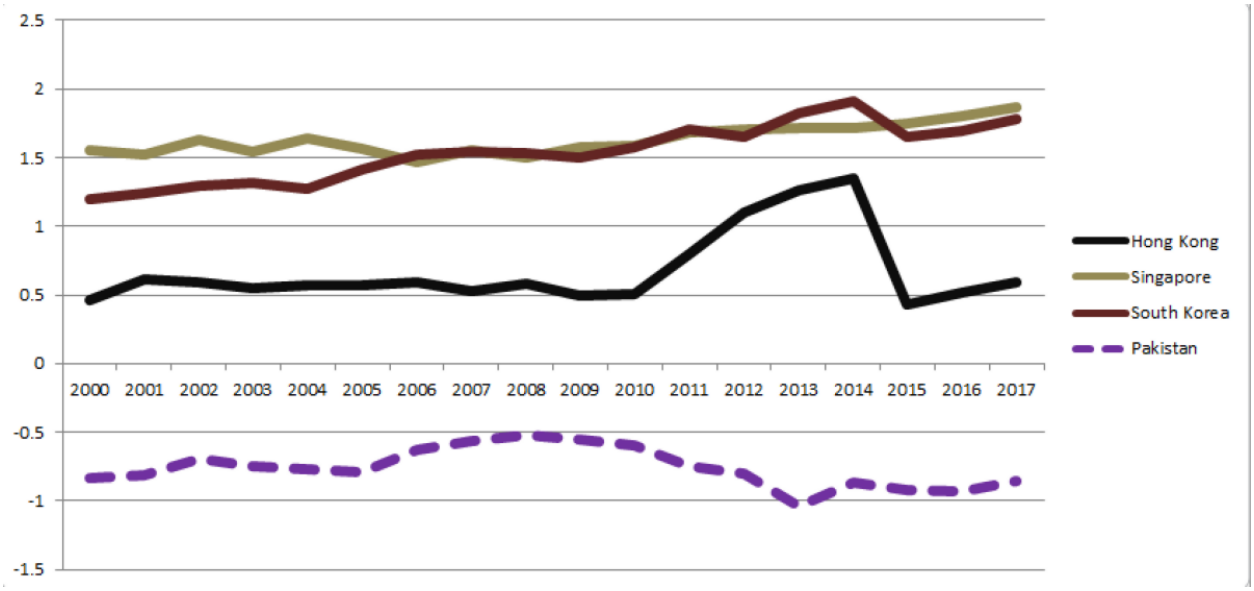
**Table 4: Industrial Investment in East and West Pakistan 1961-70**

(Million Rupees in Constant 1960 Prices)

| | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 |
|---|---|---|---|---|---|---|---|---|---|---|
| W Pak | 852.94 | 846.15 | 757.05 | 1062.50 | 1221.43 | 1087.96 | 987.16 | 1013.79 | 916.87 | 1061.36 |
| %Public Sector | 5.1 | 3.9 | 15.6 | 3.2 | 9.8 | 10.8 | 10.9 | 11.6 | 8.3 | 3.2 |
| E Pak | 205.99 | 459.42 | 332.21 | 382.30 | 450.21 | 390.00 | 477.02 | 799.81 | 796.84 | 700.88 |
| %Public Sector | 21.7 | 13.8 | 29.8 | 24.3 | 24.3 | 25.0 | 24.8 | 53.0 | 50.7 | 45.7 |
| All Pak | 1058.9 | 1305.6 | 1089.3 | 1444.8 | 1671.6 | 1478.0 | 1464.2 | 1813.6 | 1713.7 | 1762.2 |

Source: Amjad (1982) Table A.9

**E:**




**F:**

**GOVERNMENT OF PAKISTAN**
**FINANCE DIVISION**

◇◇◇

Islamabad: 30th April, 2023

**PRESS RELEASE**

In the fortnightly review of petroleum products, Government of Pakistan has decided to revise the existing prices of petroleum products. The new prices effective from 1st May, 2023 will be as follows:

(Rs./Litre)

| Product | Existing Prices w.e.f 16-04-2023 | New Prices w.e.f. 01-05-2023 | Increase / (-) Decrease |
|---|---|---|---|
| MS (Petrol) | 282.00 | 282.00 | 0.00 |
| High Speed Diesel (HSD) | 293.00 | 288.00 | -5.00 |
| Kerosene (SKO) | 186.07 | 176.07 | -10.00 |
| Light Diesel Oil | 174.68 | 164.68 | -10.00 |