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Public Policies and Sustainability of Industrial Growth in Pakistan

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Abstract

The paper evaluates the effectiveness of public policies on the growth and development of the industries sector of Pakistan. Based on the supporting arguments, it historically reviews the performance of the industrial sector during the last seven decades (from 1951 to 2020), pointing out the flaws in the formulation and implementation of public policies. The components of the industrial structure are required to identify the major obstacles hampering the growth and sustainability of this sector. The components like; industrial power supply, credit facility, technical and vocational education to industrial workers, flexible taxation system, and basic infrastructure facilities are given emphasis here and are thought to be of more importance in the rapid industrial progress in the country. Likewise, the security issue and law and order situation is also of greater importance in giving protection to physical as well as human resources in the overall industrial structure. The paper also suggests

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coherent sustainable policy recommendations as a way forward for the sustainable industrial growth of Pakistan in the larger public interest.

Keywords: Industries, Growth, Sustainability, Policies, Gross Domestic Product (GDP)

1. Introduction

The recent agenda of Sustainable Development Goals (SDGs) is to end poverty, fight inequality and injustice, and tackle climate change by 2030. These goals could not be achieved without sustainable growth of the industrial as well as the agricultural sector of the economy. The income differentials between higher income and low-income countries are in most of the cases related to the corresponding differences in the output of these two sectors is in turn related to the differences in living standards, freedom of choice, and effective public service delivery of the countries. The political economy of public policies plays an important role in increasing per capita income through an increase in output of agricultural and industrial sectors for the purposes to achieve the growth targets in these sectors of the country's economy. Economists and scholars recognize the significance of the role of political economy as being a tool for the improvement of production, distribution, and consumption. While different groups of experts in the economy adhere to their own theories on how the economy should be developed, the political economy is a complex field that covers a broad range of political interests. In simple terms, political economy refers to the advice given by economists to the government on either general economic policies or on certain specific proposals created by politicians (CFI Institute, 2015- 2020).

The political economy assesses which policies will provide the most beneficial results. It also relates to the capability of the economy to achieve the desired results and focuses on three major areas: The first one is the economy which is the most important indicator of development and it defines the mechanism that allocates scarce resources among competing stakeholders. The second is to increase in total and per capita gross national product with an increase in purchasing power parity and average annual real growth rate, and The third important is to increase in agricultural and investment share in the gross domestic product, reducing the rate of inflation debt, poverty and healthy performance of current account balance are healthy indicators of a developed economy. The economic development indicators divide the entire world into three groups; developed, developing, and less developed or low-income countries or in more simple terminology first world, second world, and third world economies. One thing which is common with all economies of the world is that the sector-wise structure of an economy is based on the three sectors. The first important primary sector of an economy is agriculture (includes

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hunting, forestry, fishing, and life stock). The important point to mention here is that agriculture's contribution is comparably higher in backward and developing economies than in the developed world. That is why; third world economies are also called traditional economies or agricultural countries. The second is Industries including mining and quarrying (including oil production) manufacturing, electricity, gas, water, and construction. And third is Services which include wholesale; retail trade; restaurants, hotels, transports, storage; communications, financing, insurance, real estate, business services, community, social and personal services. The industrial growth and economic development of the country have a strong correlation and key role in developing countries to initiate and increase the welfare of the citizens through the production of quality goods and services for domestic consumption and export abroad for prospering society and economy by adopting the strategy of inclusive industrial growth.

The Industrial Revolution in Britain, and then in other European countries in the 16^{th} century challenged the feudal status queue in the entire world. Industrial growth was also played a significant role in human civilization and current globalization with a fast pack of communications technology from nook to the corner and horizontal to vertical in the entire world by industrial growth and development. This paper is written in this context to evaluate the industrial growth of Pakistan's economy in-depth with respect to the role of political economy in industrial policy and industrial growth sustainability. This study investigates the role of the political economy of public policies in dealing with the agenda, of industrial growth and highlights the existing direction of public spending. It contributes to the economy of Pakistan to set the direction of essential public initiatives that will bring industries on track of sustainability at large in the long run. The study is restricted to analysis present performance of the industries in the economy of Pakistan, with the main causes of the slow pace of unstable industrial growth and to develop robust strategic policy document for effective resource tapping for improvement in the sector.

2. Scope of the Study: This study will evaluate the existing structure of public policy to deal with industrial policies served to grow. The public sector institutional complexity and its policy flaws in process of implementation and implications on governance are discussed in detail. This research also reviews the direction of the political economy on the agenda of industrial growth and development in reference to the experience and achievement during the last **70 years** from 1951to 2020.

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3. Objectives of the Study: The study has three objectives;

i. A strategic review of public policy, economy, and Pakistan's industrial growth nexus.
ii. To evaluate the direction of public policies to achieve the agenda of sustainable industrial growth in Pakistan.
iii. To review the existing situation and how the political economy can deal in the future to boost industrial growth.

4. Research Questions: The study will be guided by the following questions:

i. What is the present status of Pakistan's industrial growth Profile in terms of its share in the economy?
ii. To what extents have political and economic managers used effective institutions tools, good governess for export lead growth?
iii. How we can remove the major obstacles in the industrial growth of Pakistan and reach the destinations of sustainable industries in the greater public interest.

5. Methodology and Data: Descriptive analysis is one of the important methods of research and relies on secondary data such as reviewing available literature or qualitative approaches like informal discussions and more formal approaches to specific group studies. This study integrated both the quantitative and qualitative data to analyze the time-series analysis of national accounts. Pakistan National Accounts' data is taken from an economic survey of Pakistan's yearly publications. Evidence from the Economic Survey of Pakistan is used to analyze through statistical tools and techniques to produce the best results for researchers, policymakers, and students of social sciences. The data is analyzed by the latest powerful business intelligence (BI) software tool which is unique for valid results in times series data evaluation for future planning and policy formulations in the public interest. The study is conducted in mix method to make it result-oriented. The policy implications are based on the result of the quantitative and qualitative analysis conducted by the authors in an explanatory method of the research mostly used in social sciences subjects.

Review of Literature: Industrial policy is academically defined as a variety of economic policy tools, ranging from innovation to trade and foreign direct investment for the economic growth of the country. Another definition is the government policy intervention that attempts to alter the structure of production toward sectors that are expected to offer better prospects for economic growth. The industrial policy itself is based on two fundamental elements one production in some sectors is more desirable than in others, and the second government should make an active effort in nudging the production

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structure. “A frequent misunderstanding is that industrial policy does not refer only to supporting industry i.e. manufacturing, but rather it can refer to any sector, including favoring a shift to services, for growth than would occur in the absence of such intervention” (Saggi) “A successful industrial policy should induce entry and encourage young enterprises to grow, which in turn can lead to increased competitiveness and productivity growth”. (MHAMMEDI).

Globally all countries engage in different forms of industrial policy for the betterment of the future and try their best but the majority could not get success in implementation because every policy has some pros and cons means some advantages and adverse impacts. we have an example of such successful industrial policies of the USA, China, Japan, Taiwan, and South Korea to deliver technologies invocations and its export growth. (Ricardo, 30 December 2006)conclude that some “traded goods are associated with higher productivity levels than others and that countries that latch on to higher productivity goods will perform better in terms of economic growth over the medium and long term period”. It has been shown that governments have always taken a proactive role in the economy at the dawn of industrial revolutions, to ensure their national competitive edge. (Becker) The urgent need to accelerate, and make a national success of, the green and digital transition in the industrial sector are leading to widespread calls for greater government involvement in the economy, including by means of an active industrial policy as the need of the hour (Alessio Terzi).

This is a real fact that COVID-19 has emerged as one of the biggest challenges to the global and domestic economy, and jolted economic activities from top to bottom and from horizontal to vertical. The situation is more challenging for the industrial sector due to two reasons: First, many industries' jobs are on-site and cannot be carried out remotely, and second, the slowdown in the industrial activities due to high trade & production linkages with the hardest-hit countries. Therefore governments all over envisaged the situation well in time and should adopt the best industrial policy measures i.e., earlier resumption of businesses, relief to export-oriented industries, and construction & industrial packages. Further, well-coordinated fiscal and monetary policies for sustainable industrial growth is the need of the hour to face the challenges of 21st-century industrial digitalization and at the lowest cost quality productions for changing’s consumption pattern and export boom as a post-pandemic industrial strategy in the greater public interest.

6. Pakistan Industrial Map: Historically before the partition of sub-contents modern industries were established during the British regime Lahore and Karachi was the hub of the business and now has become one of the leading industrial states of the country and dominated industries were textiles.

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Now day Glass, leather, sports, garments banking, and petroleum and gas industries played a key role in industrial growth in Pakistan. Its nature and pattern can be understood in detail with help of an industrial map of the country. The map in figure-1 below shows the regional significance of the industrial production as below upper region mostly based is on agricultural forestry and tourism industries, Lahore and Islamabad are its telecommunication and finance including services, agric value addition industries' and petrol and rock. Sindh and Baluchistan the southern region are sufficient with petrol and gas reservoirs and also agriculture-based food and cotton plus horticulture productions. The country is categorized as a semi-industrialized state. Pakistan's economy has grown tremendously since its independence in 1947. Punjab and Karachi regions constitute the major share of the economic growth of the country. The first decade of the 21st century has experienced wide-ranging economic reforms, particularly in the manufacturing and financial services sector, leading to improvement in the country's economic outlook. Some other popular industries are construction materials, minerals, paper products, food processing, and beverages.

Pakistan's manufacturing sector provides employment to at least 20% of the country's labour force. Some major manufacturing industries include cotton textile and apparel manufacturing, carpets, rugs, rice, chemicals, sports goods, and leather goods. Historically, Pakistan's textile industry and clothing sector has always been a major contributor to the foreign exchange earner and is still the 2nd largest supplier of cotton yarn. The fertilizer and Cement industry is two of the most prominent and energetic organizations having operations and interactions with agriculture growth and growth of the construction industry of the country. Further details are provided in the industrial map in **figure 01 below.**

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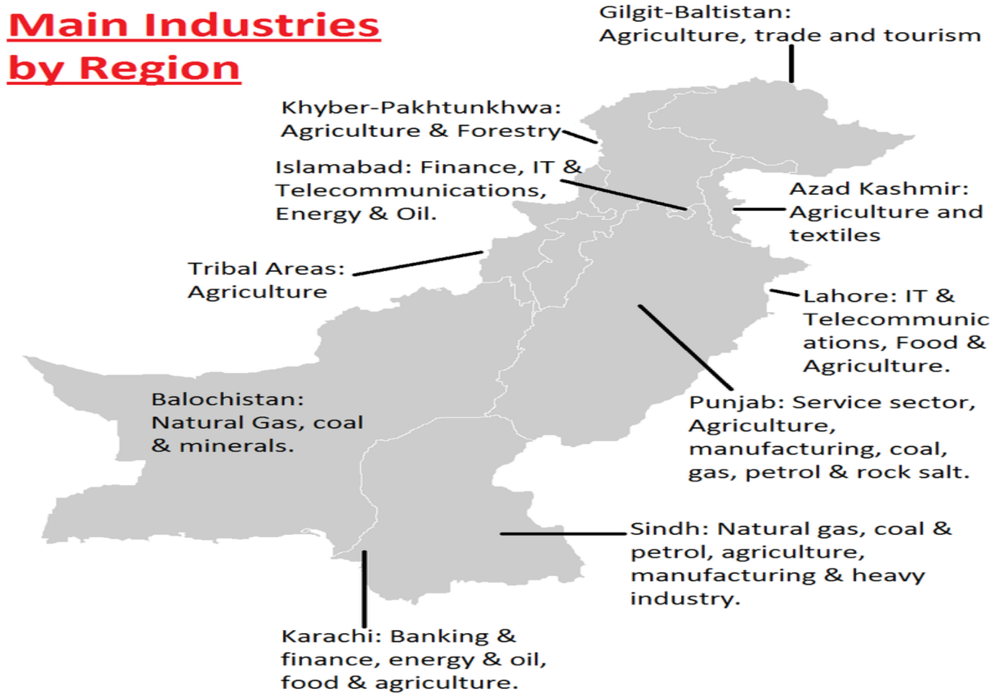
Figure-01



(https://commons.wikimedia.org/:Main_Industries-Pakistan)
(wikimedia.org)

7. Discussion and Results:

I. Industrial Policies and Growth Performance in Pakistan (1951-1971): The Pakistan Industrial Sector is the second largest sector of the economy accounting for not below 20% of the GDP. This sector is comprised of the large, medium, and small-scale/cottage industries. At the time of independence in 1947, its contribution was less than 2% percent to the GDP. The hub of industrial growth was Karachi and Lahore division in the west part of Pakistan. The decades of 1950, 1960, and early 1970 were highly favorable for industrial growth but unfortunately, the war with India in 1965 and 1971, the separation of East Pakistan in late 1971, and the Nationalization of industries in 1974 hampered the process of industrial growth at large.

The historical record growth was observed from 1960 to 1970 during president Muhammad Ayoub Khan's regime (1958-1968), which had a keen interest and focus on revolutionary industrial policies and he has credited the establishment of the Pakistan Industrial Development Corporation (PIDC) in the country. The highest growth occurred in 1953-54 in the mid-fifties and then after at the end of Ayuob’s regime as 9 to 10 % in GDP, 11 to 15% in the agriculture sector, and 11 to 14 % in the manufacturing and commodity-

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producing sector of the industries are measured in mid-fifties to end of the sixties in the national economy details as shown in figure -02 for a further review of two decades of national accounts data of Pakistan. Figure-02 elaborates on year-wise contributions in detail.

II. **Impact of Nationalizations on Industrial growth (1972-1977)**: The 06 years government tenure of the Pakistan people's Party government from 1972 to July 1977 under the leadership of its founder Zulfiqar Ali Bhutto mostly focused on state enterprises in the country and his nationalization policies adversely affected the industrial growth and its sustainability. But on the other hand, he was credited with developing the basic infrastructure of the country which was essential for industrial growth and development. He has also established technical and vocational institutions having a positive role to play in the long run with the establishment of Pakistan steel mills and several other types of cement and sugar industries in the country under the public sector domain. But it's the real fact that managing industries are not a true business of the bureaucracy so, their credibility and performance were not exemplary in that period, despite he has launched many reforms in the field of agriculture, industries, and restructuring of the services sector and to move forward in the legal front and constitutionals base of the country in the greater public interest. As a result, his national policies had an adverse impact on the sustainable industrial growth of the country.

III. **The Martial law government of Military leader General Zia ul-Haq (1977-1988):** The policy of Military Governments was very soft with industrialists and supported them in all the ways to stabilize the industrial growth again. He has personal relationships with industrial elites and gave them out-of-way perks. He has also developed a new industrial class in his own fever to continue his illegal rule and set aside the labour laws and prohibited labour unions activities for at least one decade but his tenure was stable growth of industries in the county despite that, he has credited for the basic changes brought by the Bhutto the government in irrigation agriculture education and rural development including agro-based industries in far-flung areas. After the death of a military ruler in 1988, the second government of the Pakistan people's Party **(1988-1990)** formed the industrial policy but did not properly implement it. The industrial class challenged the government and toppled it with quite a support of an industrial group led by Mr. Nawaz Sharif in 1990. Figure 02 elaborates on the output in 20 years of the early period from 1951 to 1971.

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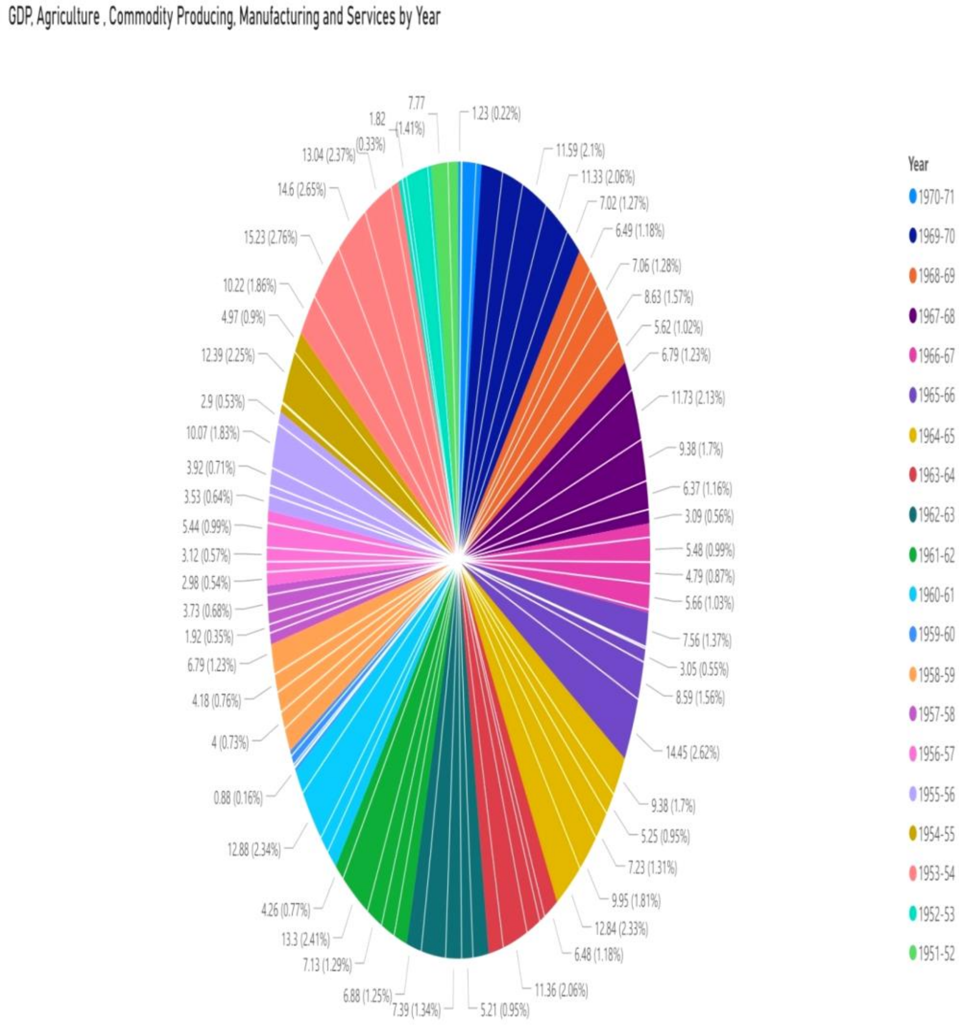
Figure-02



(1951-1971)

IV. The Industrial Growth Policy and Sustainability (1989-2000): The tug of war was started between two elite group one group of feudal under the leadership of the Pakistan People’s party with help of the industrial labour class and another was Industrial group under the umbrella of the Pakistan Muslim League headed by Mian Mohammed Nawaz Sharif from 1991 to 1993 and from 1997 to 1999. The Political instability again harms the industrial

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growth from 1989 to 1999 till the end of the second millennium and the nuclear exercise conducted in May 1998 by the industrial group the government again derailed the growth path of country's industrial production because of sanctions on the economy for a long time. The establishments take over again in October 1999 to overcome some unavoidable circumstances in the country. The lowest growth of the manufacturing sector is measured in the decade of 1990 to 2000 as reflected in **figure 03 below** of national accounts growth as 0.53 in 1974 and -0.07 in 1997, in the commodity sector. The **figure-03** contributes year's wise performance of national accounts data and mostly focused on 30 years of industrial output in the economy in detail from 1971-72 to 1999-2000.

The twenty-year period from **1980 to 2000** also brought changes in the automobile sub-sector of the industries and supported growth indicators a lot. The producing and selling of self-powered vehicles, passenger cars, trucks, farm equipment, and other commercial vehicles are familiar as automotive engineering has emerged as an important sub-sectors of the industrial economy. It is a major force of large scale manufacturing sub-sector of the industries and an important contributor in growth; contributing at least US$ 01 to 03 billion to the national economy and engaging over 200,000.00 people indirect employment in the country. Now a day sugar industries are also the largest industry in Pakistan after the Textile Industry. At present, there are 106 sugar mills are operating in Pakistan. At the time of independence in 1947, there were only two sugar factories in Pakistan. The export of sports items and surgery equipment also contributes at large to the national economy but the overall growth rate of Pakistan's industrial sector of the economy is still stabilized. It contributes constantly 19% to 20% to GDP and is a major source of tax revenues of the country but not promoted by the vested interests commonly known by the red tapes. These red tapes are mostly known as slow and manual proceedings/ functions of policy institutions, and other relevant stakeholders which are traditional and cultural factors of rural and illiteracy society social taboos, including feudal powers holders, not technical managers and several other factors that determine industrial growth. Law and order situation in the country and religious extremists and despite the fact young energetic youth resources are available on cheap rate but mostly or unskilled or semi-skilled.

The manufacturing sector is the backbone of Pakistan's economy and constitutes the second largest sub-sector of the industries to offer the growth but its contributions are also steady but declines from 13.01% in 1981-1982 to 1.5% in 1999-2000 as placed in last on **figure 03 below** and insist the researcher to work on the root cause of the declining trends in the sector. The commodity sub-sector was also at its peak in 1980-1981 at 15.09 % and in the last year of 1999, it's at only 3.02%. This is alarming satiations for the

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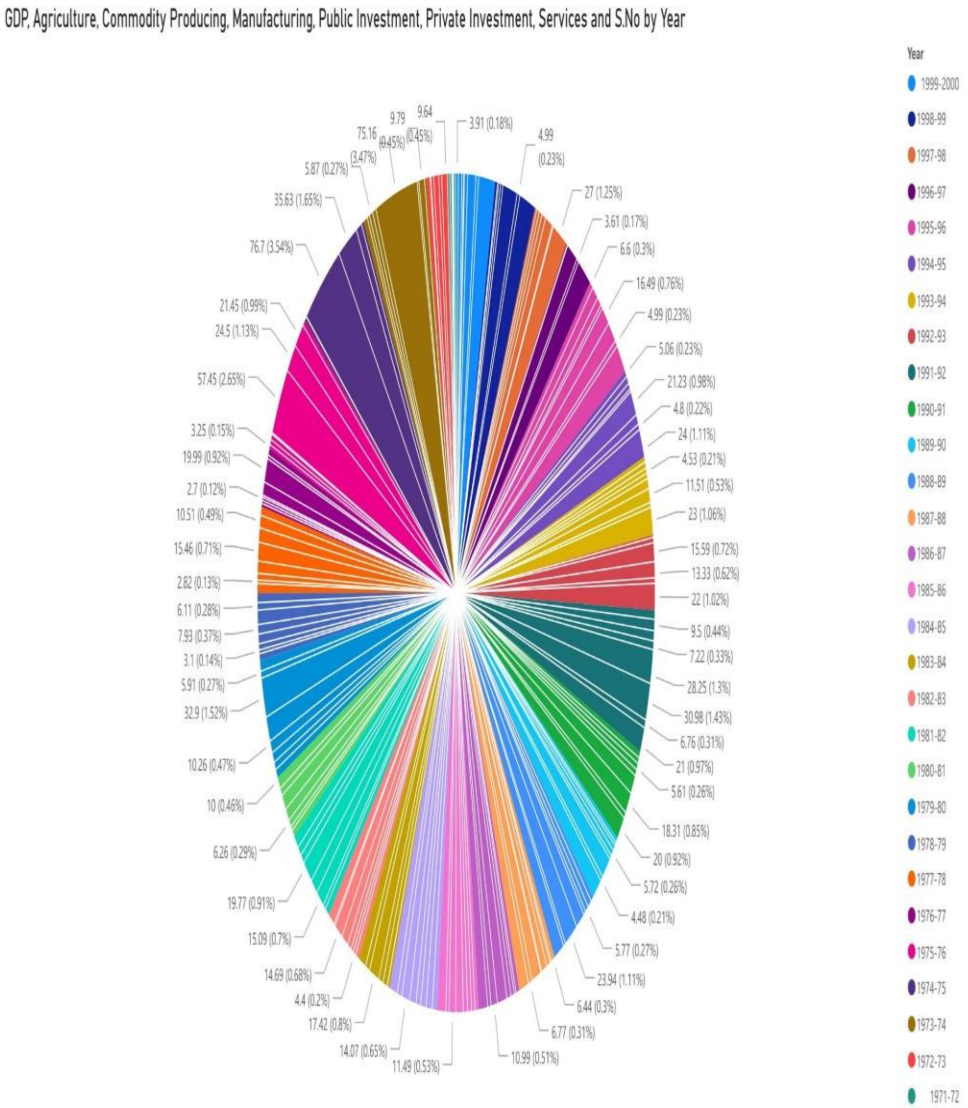
economy of 223 million people of Pakistan and their prosperous future in the long run.

Figure-03



(1971- 2000)

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V. Industrial Policies and Growth Sustainability in 21st Century (2001-2020): The 9/11 tragedy was held in America in the year 2001 and the country went into the war against terror which still continues but its volume is very low for the past few years this war has an irreparable loss to Pakistan's economy particularly industrial growth. It has been analyzed that the first decade of the new millennium shows a dismal picture of the country's economy and again insists the policymakers boost the industrial growth and get rid of manic terrorism, corruption, poor infrastructure facilities, and energy crisis as soon as possible. According to the Economic Survey of Pakistan 2019-2020, the last two years show the dismal pictures impacted by the COVID-19 as the growth of manufacturing and commodities in minus growth of -5.06 and -01 in last year mentioned in **table 01** below.

The data examined below in **figure 04,** indicate that the industrial sector grew slowed in the outgoing years of the new millennium from 2001 to 2020. Figure-04, sum up the two decades' performance of the growth in Pakistan which is mostly unstable. It has been observed that the large-scale manufacturing which has a share of at least 80% within manufacturing and 10% in overall gross domestic product-GDP, according to data of (ESP) is not performing well in the last few years. Small-scale manufacturing accounts for 02% of gross domestic product-GDP and at least 10% within manufacturing is also not impacted widely in the last 02 decades of the 21st century.

The other components of the manufacturing sector include slaughtering and construction which have also had a significant share in the gross domestic product-GDP of the country and overall growth of the economy is performed on average except for poultry farming industries and real estate sectors contributions due to rapid population and migrations towards urban centers. The construction sector is displaying robust activities due to housing demands in urban centers that are under the pressure of migrations toward cities.

The construction sector witnessed the growth of 9% in the economy and delivered its best because of the infrastructural development activities which lead to an increase in the demand for steel, cement, bricks, and allied products within the country and also abroad. After evaluation of nearly two decades of data on the industrial growth of Pakistan, only improvements were found in the middle period of the first decade which means the year from 2005 to 2008.

The industrial economy was put on the road to revival again in 2004 - 2005, and the highest industrial growth was observed as an increase of 16.03% in manufacturing only. Similarly, the poor results were seen in the years 2009-10 when it got a steady decline of -1.9%.

Pakistan Industrial Sector Growth recovered from the losses in 2010-2011 and achieves a record recovery of more than 4% industrial growth. This

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increase was because of technocrat's efforts to revise the policy in larger public interest with support policy of price by the people's government and bummer crop of cotton sugar cane and wheat but the major role was textile production of the country to stimulate the growth of the industrial sector in the country economy.

VI. Results: On the basis of available data of almost 70 years, we can sum-up the discussions that it did not bring significant improvement in the sector mostly its contribution was found not only stagnant in its nature but lagging behind in the terms of real achievement as estimated in the development agenda of industrial growth and economic development of the country to boom the export goods and to reduce the rate of poverty and unemployment of the skilled labour and to put the country on the sustainable industrial growth path in the 21st century. It is also important to mention that China Pakistan Economic Corridor (CPEC) is also a part and parcel of the Pakistan economy but its contribution to the economy and industrial growth was not reported as a game-changer. The questions need a more detailed discussion on the (CPEC) impacts on the industrial growth of Pakistan particularly and the economy of the country at large.

Table-01. Industrial Growth Sustainability Performance in last 03 years

Year	GDP	Agriculture	Manufacturing	Commodity	Services	Total Investment	Public Investment	Private Investment
2017-18	5.5	4	5.4	4.3	6.3	16.4	25.4	13.7
2018-19	1.9	0.6	-0.7	-0.9	3.8	-1.3	-21.6	7.1
2019-20	-0.4	2.7	-5.6	-0.1	-0.6	8.4	13.2	6.5

(2017- 2020)

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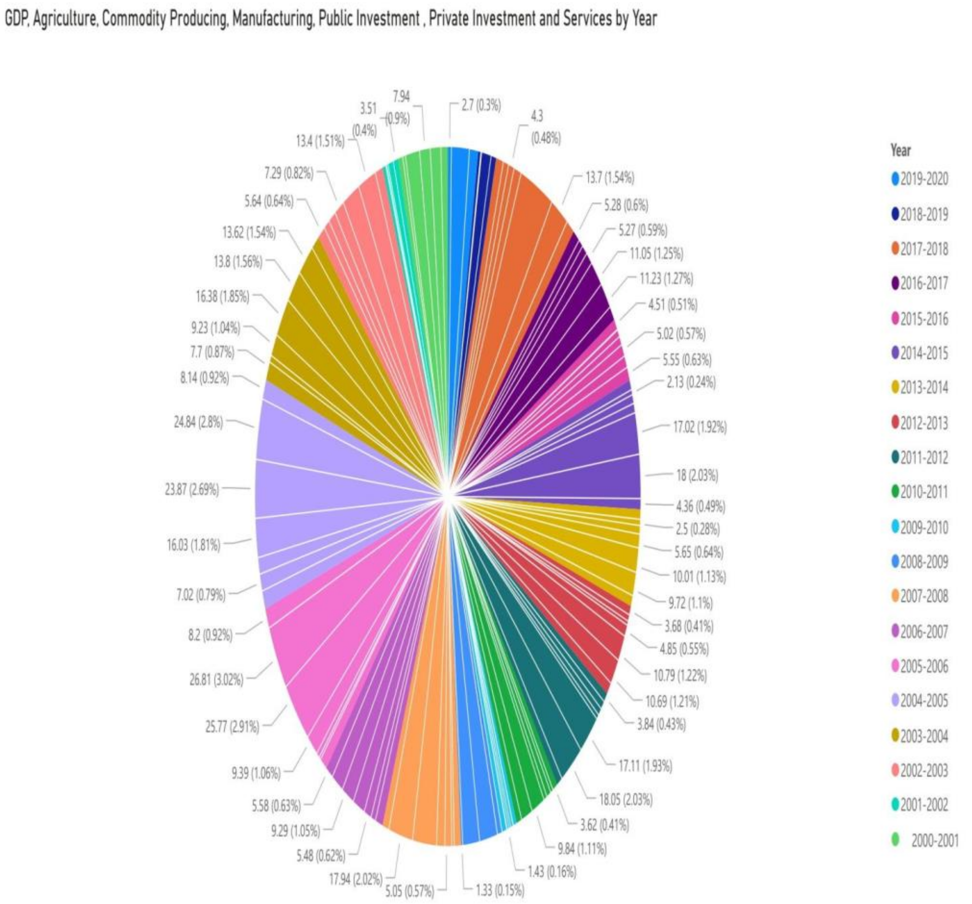
Figure-04



(2000,2001-2019, 2020)

Conclusion

The study concludes that this is the basic fact that there is a limited market for capital goods due to the environment of the country with reference to low savings and low investment so, only industries producing consumer goods are performed well. The poor and improper links among academic institutions and industries created a huge gap in productive industrial research for the economy. The energy crisis is on rising in Pakistan mostly industries are suffering from power supply available thinly and also expensive prices with unnecessary taxations are also included, so this situation serves as a major obstacle to the industrial growth**.** The great tragedy of 9/11 held in America and the manic of religious terrorism in the country and these religious and ethical feuds create a law and order situation that slowed the industrial growth and development process of the economy. Pakistan, as the country is still in grip of feudal cultures majority of its people, are residing in the rural areas and are illiterate living with the false notion and time-barred thinking so it impacted industrial growth at large. The historical trend indicates that in the early years of Pakistan industrial policy was developed by seasoned bureaucrats /policymakers. The political instability harms the growth of industries at large. The others factor which affect industrial growth are as follows; poor monetary policy and financial discipline and its consistency and continuity for industrial development impact inversely. The issues /flaws in public policies towards domestic demand, poor macroeconomic environment, and less allocation of funds for industrial research are major obstacles/challenges which directly affect the industrial development of Pakistan.

Pakistan's Sustainable Industrial Growth Policy Implications:

The industrial sector can be promoted by increasing the production of capital goods in the country by the utilization of natural and human resources of the county by redesigning long-term and sustainable public policies. Saving and investment in the country are thinly proportioned in the context of gross domestic product-GDP growth and the consumption pattern is traditional in the country. Most income of the country is consumed by the nations on social, cultural, and traditional taboos which are unproductive. The investment should be increased to develop the industrial sector of the country for more products in the greater national interest. It is concluded that if we are interested to promote the industrial sector, there should be technical know-how and skillful labour investment to convert the huge flow of young populations into the skilled labour force at large.

The tax policies are mostly inflexible and difficult for common to understand in-depth and pay easily and the tax concession means tax-free zones are also needed to increase the investment in new industries for sustainable industrial growth. In time the supply of raw materials from abroad and within the country is necessary for the improvement of industrial sector performance. Improved infrastructure is a necessary tool for the industrial development of Pakistan. Financial institutions should provide credit facilities to the industrial sector under flexible terms and conditions.

There should be an expansion of markets, at domestic and foreign levels, for industrial goods. Foreign direct investment should be encouraged;

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more incentives should be given to investors. Political stability is compulsory for the development of the industrial sector.
A high degree of technical education is required to produce a skilled, technical, and efficient workforce for future challenges in the industrial sector in presence of China Pakistan Economic Corridor-(CPEC) interventions. The problem of load-shedding and irregular supply of electricity should be removed. Commercial policy and self-reliance policy should be adopted to remove industrial backwardness. The study suggests that the state should play a significant role in introducing sustainable policy instruments to boost sustainable industrial growth in the country. The economic manager should focus to increase the volume of exportable goods and decreasing the ratio of imports in the larger national interest to promote local industries.

There is a dire need to strengthen the industrial institutions of the country to bring greater economic change, through the industrial revolution particularly agro-based industries in far-flung areas, and provide a good governance structure that can effectively manage the political economy of public policy and industrial economic growth stability as in the dynamic world of the global competitions in every field of technology and economy.

Pakistan is now a country of 226 million people but most of them are unskilled and illiterate which affects the industrial growth of the country. The low income and traditional consumption pattern lead to low savings and it leads to the lowest investment in the country so growth is also affected by growth. Poor infrastructure of the country affects and impacts the industrial growth of the region, and poor ways of communication are an obstacle to the production, marketing, and export of the produce.

The supporting and allied institutions like **the** National Development Finance Corporation, **(**NDFC), Regional Development Finance Corporations-(RDFC), and Industrial Development Bank of Pakistan-(IDBP) are closed due to corruption and mismanagement some years ago. There is a dire need to establish a new entity to provide easy credit to industries now for their sustainability in industrial growth and development.

It is also suggested that Pakistan's industrial sector policymakers adopt the self-sufficiency theory as adopted by King Bumble of Thailand and avoid fully relying on the miracle of the China Pakistan Economic Corridor (CPEC) in the near future. It can be predicated on the available/used data of the economic survey of Pakistan that the industrial growth and development in Pakistan will be slower in the next few years in comparison with other emerging economies if necessary, measures are not taken within due course of time.

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