

NUST Institute of Management Sciences

**POLITICAL INSTABILITY AND ITS EFFECT ON
ECONOMY/ INDUSTRY**

**RESEARCH THESIS REPORT
MBA 2K2**

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THEME OF THE THESIS

“ The effect of political instability on our economy specially on industrial sector with a view to recommending a model for industrial development”

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It was great experience to carry out a research that is extremely important for Pakistan. In Pakistan, political system has been in turmoil and it could not provide a capable, dedicated and sincere leader. As a result, economy has been deteriorating day by day.

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ABSTRACT

Political system has never been stable ever since the creation of Pakistan. The feudal lords have been in power and working for their own interests rather than working for national interest. The Presidents and Prime Ministers have been changing frequently on the plea of corruption and inefficiency. Repeated Martial Laws have been the hallmark on our political history. The basic reasons of our instable political system are, feudalism, rampant corruption, lack of industrialization, scarcity of leadership and family oriented politics.

All this resulted in downturn of country and today majority of population is living below poverty level. During 1950's a number of heads of state were changed and there was no continuity of policies except that the industrialization was given preference over agriculture. The decade of sixties is remembered for Ayub Khan regime's professional competence in its approach to economic policy and good management. The era was a period of substantial economic development based on performance by both the industrial and agricultural sectors. The manufacturing sector had shown 9.9% growth that is highest during 70's through 90's. Z.A. Bhutto's era was the worst as he nationalized the industries, banking, educational institutes and insurance. It put a stop on local as well as foreign investment. Zia's regime(1977-88) was more liberal in economic terms as he denationalized the industries. Rapid growth and prosperity and relatively stable prices made the Zia period appear to be an era of exceptional political and economic stability in Pakistan. Benazir's two tenures have been poor as a number of industrial units were closed down due to high rates of electrical charges. Nawaz's two tenures also didn't contribute much towards industrial growth. Musharaf's tenure so far has been quite good for the economy specially

for industries. During 2003-04 manufacturing sector showed a historic growth of 13.4%, which is highest ever since the creation of Pakistan.

The major hurdles in industrial growth have been the discontinuity of policies because of frequently changed heads of state. Pakistan is rich country as far as resources are concerned but no leadership has fully utilized these for national advantage. If the government focuses on following, there is no reason why Pakistan should not become Asian Tiger: -

- Political stability
- Law and order
- Facilitate investors
- SMEs
- Education
- Corruption
- Exports

CHAPTER ONE

Introduction

1.1 Backdrop

Pakistan has gone through a turbulent period of nation hood in the fifty-seven years of its existence. During this period, three constitutions were promulgated in 1956, 1962 and 1973 and LFO in 2004. Its first general elections based on adult franchise were held 23 years after independence in 1970. For nearly half of its existence Pakistan has been governed under martial law. An analysis of its checkered political history reveals that seeds of discontent were sown in the inceptual state. Pakistan was created to bring about revolutionary benefits in the life of Muslims of Indian Sub Continent. Instead, its politically elected leaders delivered poverty, corruption and virtually no civic amenities. With passage of time, the vertex of discontent is getting larger than life. The chosen representatives have disappointed the citizens repeatedly. Instead of public service they opted to fill their own coffers to an extent that Pakistan was once declared the second most corrupt country in the world. Consequently because of massive malpractices none of the elected forum could complete its tenure and on pretext of corruption successive government were either removed by martial law or under constitutional provisos.

Political stability of a country is the mainspring of healthy socio-economic environments. In a politically stable culture, the leadership delivers just, effective, and transparent governance to the people, and the entire society in unison marches towards prosperity. No such perfect society exists in this fallible world and Plato very correctly named such idealistic society as Utopia, but nations do try to be as near to Utopia as possible. Pakistan is still a young state and its first generation has not forgotten the brutal genocide of the partition. People had willingly sacrificed everything they owned for a dream, a dream of living prosperously free from economic shackles of Baniyas, in an Islamic

culture. But the dream turned sour when Baniyas were replaced with bureaucrats, feudal lords and political soldiers of fortune.

One school of thought maintains that our political instability in correct perspective stems from economic instability. The reality is that both of them are inter dependent or synonymous. Therefore growth of these has got to be parallel. In 1952, we could not generate enough revenues to balance our expenditures and for the first time we had to borrow from international organizations. Ever since 1952 with exception of only two years we have not been able to maintain a balanced economy. The richest class of the country ie feudal pays almost no taxes. On the contrary the feudal being the elected members whisk away the meager revenues in the name of social developments. Due to resultant shortfall, the economy transcended into fiscal deficit and started an irrevocable cycle, which necessitated borrowing more fiscal deficits and a terminal lesser tax collection. With such chronic / addictive borrowing, a critical state has now set in wherein our total revenues only suffice to pay our debt servicing and defense expenditures.

We have now to compete in global environment of various regional cooperations such as EC, NAFTA, ASEAN, GCC etc. Such umbrella organizations tend to favor their own members by imposing quotas and anti dumping duties on non-member. The maneuver space further restricts due to enforcement of ISO's e.g. ISO 9000, 14000, or 4000. We are least quality conscious therefore the exports decline further. The situation becomes more aggravated because 65% of our exports are based on cotton, which is nature/rain dependent. Perhaps our worst failure is of basing our economy decision on our political constraints. Due to constraints ibid our economy managers utterly failed so did out economy.

The mammoth state run industries such as PIA, WAPDA, Suigas, Railways, KESC, HMC, PSM etc are causing an enormous drain on economy. Surprisingly some of these units have requisite machinery to manufacture goods, which we eagerly import, but import we do for the sake of kickbacks. Smuggling too is taking its toll. It has not only deprived us of considerable taxes but has also strangulated some of the indigenous industry such as television

tyre or electronics. The banking system of Pakistan has a checkered history. The worst stigma is written off loans of the politicians which amount to billions. Besides, government itself borrows in such quantum that almost nothing is left to extend loans to mobilize industries.

It is now generally recognized that an export led development strategy with the private sector playing the key role in economic activity can lead to rapid industrial development and subsequent employment generation. The policy initiatives required to create such a vibrant sector are reduction of tariff/non tariff barriers, encouraging transfer of technology and promotion of domestic engineering industries by implementing the deletion policy, provision of economic infrastructure, liberalization of exchange controls, easier access to credit, tax incentives and greater emphasis on research and development. There is a need to create new patterns of organization, which will be more responsive to the emerging domestic and international environment and conducive to creation of entrepreneurship and development of higher managerial skills.

1.2 Research Theme

The impact of political instability on Pakistan's economy especially on industrial sector with a view to suggesting a model for industrial development.

1.3 Objective Of The Study

The salient aspects, which have been tackled, are:

- ❑ Political system in historical perspective
- ❑ Causes of political instability
- ❑ Impact of political instability on economy especially on industrial sector
- ❑ Government policies

- Issues hindering industrial development
- Recommendations

1.4 Scope Of Study

The scope of the research revolves around the political system of Pakistan in historical perspective, causes of political instability and its impact on our economy especially on industrial sector, some impediments of industrial growth and areas to exploit for industrial development.

1.5 Methodology

The methodology adopted consists of;

- Internet search
- Reference books
- Newspapers
- Magazines/periodicals
- Visit to Rawalpindi Chamber of Industries And Commerce/NDC
- Guidance from adviser and members

CHAPTER TWO

POLITICAL SYSTEM OF PAKISTAN

2.1 Historical Perspective

2.1.1 Pre-partition

Perhaps the seeds of our contemporary history were sown in the mutiny of 1857 against the British Empire. After Mughal period, the Muslims for the first time developed an Islamic movement and started forming a very vague idea of separate identity, but the movement and allied uprising failed primarily because it lacked Hindu - Muslim unity. Though the movement had both Hindu and Muslim leaders, but it was viewed by the British primarily as a Muslim rebellion. After this movement, the British started a systematic subjugation of Muslims and they continued with this for another 90 years i.e. till 1947. In this prolonged period the Muslim values were ridiculed and economic measures aimed at confiscating all Muslim wealth were initiated. Describing post rebellion environments, the famous poet Mirza Ghalib in one of his letters laments that "In such a time the princesses have been forced to become prostitutes". By devious planning the Raj rewarded large tracts of land in Punjab to those Muslim leaders who displayed total loyalty towards them and not towards the nation. Thus they succeeded in forming a group with classical master - servant relations. It was from this group that many future leaders of newly created Pakistan emerged¹.

¹ Islamic Nations in Crisis by Ali Nawaz Memon p-29

Despite ethnic rejection by the British and most probably in consonance with law of nature, the Muslim minority got bonded due to the joint hostility of British and Hindus. The apex of such bondage was Lahore Resolution - 1940 in which Muslims jointly endorsed creation of an independent state. The idea of Muslim state gained momentum under the vision of Jinnah and Iqbal, who wanted to ensure protection of Muslim religion, economic and political rights. Despite massive oppositions, wrong annexations and faulty demarcation, Pakistan was created on 14 August 1947. Because of certain compulsions, at the time of creation, Muslim League had to make certain compromises. Firstly, the feudal class, which had opposed Pakistan, was not only welcomed but also allowed to retain their jagirs and got elevated to both houses of assemblies. Secondly the religious parties, who had called Jinnah as a "Kafir Azam" was also allowed to continue retaining their threatening posture.

2.1.2 1947-51

On its birth Pakistan inherited a weak political system, but it did absorb the shock due to presence of Jinnah. At the time of independence Pakistan had no constitution, therefore section 8 of Indian Independence Act of 1947 with some amendments was declared as the first working constitution. But perhaps more important than the constitution was the spirit of people. The newly formed nation had the will to surmount all the obstacles. Unfortunately this spirit could not gain momentum due to sudden death of Jinnah and assassination of Liaquat Ali and a serious leadership void was created. History bears the testimony that after the first generation of pre partition leaders till today we have not been blessed with any one having similar vision.

2.1.3 1951-58

. On Liaquat Ali's assassination in October 1951, the Governor General Nazimuddin took over as prime minister and Malik Ghulam Mohammad, the then finance minister became the governor general. Qudrat Ullah Shahab in his book "Shahab Nama" has severely criticized the performance of both the

performance its authority to draft constitution was severely challenged. The new members also demanded representation in the house. A decision was now taken to merge provinces in West Pakistan as one unit. Fearing dissolution, the constituent assembly curtailed the powers of Governor General to do so, under India Act of 1935. This decision was taken when the Governor General was out of capital. On return the Governor General reacted by dissolving the constituent assembly on the argument that it had failed to draft the constitution. Governor General also declared the state of emergency all over Pakistan.

The preceding Para dilates as to how the newly created government became the hotbed of intrigues, trading and manipulation of law to serve own ends. Such morbid practices were not checked in the embryonic state; on the contrary the practice remained in vogue for a very long time and is casting their shadows even today.

After the dissolution of assembly, Governor General Ghulam Muhammad again asked Bogra to form a new cabinet, making it mandatory to include General Ayub and Major General Skandar Mirza. Thus paving the way for the army and bureaucracy into politics for all times to come. Pursuant to elections, Chaudhry Muhammad Ali succeeded Bogra, while the later was appointed ambassador to USA and Skandar Mirza replaced ailing Ghulam Muhammad. The constitution was presented to assembly on 8 January 1956 and was adopted 9 years after independence on 23 March 1956.

1956 Constitution envisaged federal parliamentary system. President was to be head of state, elected by majority votes for five years, while the chief executive was to be prime minister, who could appoint governors, judges of Supreme Court, auditor general and advocate general. The elections promised on formulation of Constituent assembly could not be held till 1958. Serious differences also began to appear within Muslim League, resultantly 26 out of 30 legislators from the Muslim League walked over to Republican Party. Choudhry Muhammad Ali under

the circumstances was compelled to resign as prime minister on 12 September 1956. In a short span of time since Liaqat Ali's death till 1958, seven governments were changed. This state also reflects the political instability of the country and general unrest from which emanated the massive demand for the regional autonomy. Pakistan's next Prime Minister was Hussain Shaheed Suharawardy, he formed the new government in coalition with Republican Party. Under pressure from Republican Party he dissolved the West Pakistan Assembly but later restored it. For this folly, the president who is supposed to be above party politics demanded the resignation of prime minister. Mr. Suharawardy despite having the confidence of assembly was forced to resign on 18 October 1956.

President Skandar Mirza now appointed Ibrahim Ismail Chundrigar as the next prime minister, who due to withdrawal of support from Republican Party could last only two months. The president next nominated Malik Feroz Khan Noon, who took office on 18 December 1957. Under 1956 constitution, elections were to be held in 1958, but the prime minister not foreseeing positive outcome kept pending these. The situation now became volatile and the members who were engrossed in their petty politics and machinations could not observe the prevailing anarchy and the general unrest. The culture in the assembly forum got deteriorated to an extent that the deputy speaker of East Pakistan assembly was killed in the assembly hall². As a compulsion, in a bloodless coup, government of Skandar Mirza was replaced by Martial Law on 8 October 1958. Frustrated with the²politicians, people heaved a sigh of relief and whole-heartedly welcomed the martial law.

² Twenty Years of Pakistan by (1947-67) by Govt. of Pakistan p-75

The first parliamentary era left deep and far reaching scars on the political history of Pakistan. These formative years in which solid foundations were required for future generations were wasted in filling personal coffers, mutilation of laws and worst of all our politicians crafted for themselves an icon of selfishness, inefficiency and rampant corruption. The utter failure of parliamentary democratic system exerted its toll on economy too. Gross National Product in year 1950-51 from Rs 12863 million increased marginally by Rs12948 millions only in year 1957-58. The food supply in the same period dropped by 6.3% therefore dependence on foreign aid became inevitable. The trade deficit swelled to Rs. 2550 millions. The attitude of the government can be best assessed by the fact that its first five-year plan for year 1955-60 was published three years later.

2.1.4 1958-69

The martial law regime accorded correct priorities in cleansing. As a first act 1661, corrupt bureaucrats were sent home. In order to keep corrupt politicians at bay Public Office Disqualification Order (PODO) and Elective Bodies Disqualification Order (EBDO) were promulgated. Under the provisions *ibid*, corrupt politician were debarred from politics for 15 years. According to an estimate 5-6000 politicians fulfilled the pre requisites of PODO/EBDO. Controversial Basic Democracy System was also introduced in this period. Ayub Khan's vision to introduce a revolutionary system suited to Pakistan or else to secure votes of 80,000 basic democrats remains debatable. However Ayub Khan remained President due to this system till May 1969. Some analysts still consider this period as the apex in growth of Pakistan. The gross national product rose to 25079 millions in year 1965--66, agriculture based production depicted a sharp increase and the foreign

media cited Pakistan as its role model. Considering the unsuitability of Parliamentary system a new constitution favouring presidential form of government was enacted in June 1962. Elections were held in January 1965 and Ayub Khan who had now formed his own party i.e. convention Muslim League won the controversial election from the joint opposition candidate Miss Fatima Jinnah. 1965 Indo Pak War diverted the political focus for a while but the Tashkent Agreement portrayed as sellout to India by politicians produced nation wide strikes. Ayub Khan was thus forced to resign and handed over to General Muhammad Yahya Khan on 25 May 1969. Consequential to political pressure, Yahya Khan abolished the one unit concept and also restored the earlier Federal system.

2.1.5 1969-71

In December 1969, general elections were held, in which the Awami League won all 167 seats from East Pakistan. Whereas Pakistan Peoples Party secured 82 seats out of 138 in West Pakistan. Only 18 seats were won by the religious parties. Instead of inviting Awami League to form the government, Yahya Khan and Zulfikar Ali Bhutto agreed to keep the matter dormant for another one year. Such denial of facts led to Pakistan Army's surrender in East Pakistan and creation of Bangladesh. Blind pursuit of power by the sycophants once again marred our history and the entire nation suffered humiliation by Indians³. Creation of Bangladesh also brought downfall of Yahya Khan who handed over power to Z. A. Bhutto on 29 December 1971.

2.1.6 1972-77

³ Fifty Years of Pakistan by Rafiullah Shahab p-209

Z A, Bhutto started his tenure both as Chief Martial Law Administrator and as President. He did so to gain access to un-limited powers so as to facilitate imposition of his own idiosyncrasies. Z A Bhutto had socialist inclination, knowing well the peoples rejection of socialism, he coined Islamic socialism. To attribute to his socialistic ideas, two considerable steps were taken by him. Firstly he got one million acres from landlords, under land reforms and distributed it to landless peasants. Secondly he nationalized industries, educational institutes, banks and insurance companies. His second reform had a devastating effect on the economy.

The government sponsored manpower turned these profit making organizations into decaying white elephants. It retarded economic/industrial growth and, it also discouraged foreign investments during critical times. Martial law was lifted on 20 April 1972. Same day the interim constitution was enforced, which was based on presidential form of government. The interim constitution was made permanent in August 1973, under its provisos, prime minister had all potent powers, whereas the status of president was reduced to ceremonial head of state. Due to autocratic and feudal attitude of Z A Bhutto, election of 1977 were contested between joint political parties i.e. Pakistan National Alliance and Pakistan Peoples Party. The latter had a land slide victory by wining 155 seats out of 200. Alleging rigging, the results were not accepted by the PNA and a massive protest was launched in form of strikes asking for reelections⁴. Due to worsening situation, martial law was again imposed on 5 July 1977 for the third time⁴ and the Chief of Army Staff General Muhammad Zia Ul Haq assumed the powers as Chief Martial Law Administrator. His first step was to dissolve both the assemblies and promising of elections in 90 days. Political

⁴ Ibid p-288

victimization, nepotism and interference of politicians in administrative machinery were the hallmarks of Z.A. Bhutto's tenure.

2.1.7 1977-88

In 1979, Z.A. Bhutto was hanged on the basis of a controversial decision of Punjab High Court and Supreme Court, with this General Zia introduced the process of Islamic Political System. The constitution of 1973 was reinvaded through provisional constitutional order - 1981. This amendment gave absolute powers to the president and chief martial law administrator. 1979 invasion of Afghanistan by Soviet Union brought massive support of United States to General Zia. The 90 days election promise stretched to December 1984, and instead of elections, General Zia held a much controversial referendum. In 1985 the General amended the 1973 constitution with 8th amendment which authorized the president to dismiss even the Prime Minister. General Elections of 1985 were held on non-party basis. The opposition parties formed an alliance called Movement for Restoration of Democracy (MRD) and boycotted the elections. Pursuant to election, General Zia, appointed soft-spoken Muhammad Khan Junejo as Prime Minister. First act of assembly under the new Prime Minister was to approve the 8th amendment, the 1984 referendum, the martial law and the punishments awarded by military courts. The 1973 constitution was now a strange blend of parliamentary system led by Prime Minister but actually⁵ controlled by President. Such confusing blend fomented difference between the President and the Prime Minister and resultantly the Prime Minister was dismissed by the President in 1988 on grounds of not being serious about imposition of Islam. On 18 August 1988, General Zia along

⁵ The Military of Pakistan by Brig. A.R. Sididiqi p-233

with senior army officers died in an air crash and Chairman Senate Ghulam Ishaq Khan was appointed President. Zia invoked the magic word 'Islam' to mesmerize his supporters, disarm his detractors and to silence his critics. The systematic assault on party based politics saw Pakistan lapsing in to politics of local patronage in which infusion of largely illicit funds on an unprecedented scale attempted to sway voter's choices. The fiscal crisis of state and the growth of new pockets of affluence accentuated grievances of entire provinces, especially Sind. In crux thereof Zia's regime denied the people their fundamental right of political choice.

2.1.8 1988-99

Elections were held within 90 days. Pakistan Peoples Party won the elections and Benazir Bhutto formed the next government as the Prime Minister. Benazir and her party were accused of massive corruption and the newly elected government was dissolved by President Ghulam Ishaq Khan only after 22 months.

Caretaker government under Ghulam Mustafa Jatoi remained in vogue from August to October 1990 and elections were held in the same year. Muslim League led by Nawaz Sharif won the elections, and he became the next Prime Minister. In April 93, the President again dissolved the assemblies/Prime Minister on grounds of inefficiency. The caretaker government under Balkh Sher Mazari remained in power from April 93 to May 1993. Muslim League government was restored on orders of Supreme Court on 26 May 1993 but due to escalating differences both the President and Prime Minister had to step down in August 1993. The third caretaker government under Moeen Qureshi was established from August to October 1993.

The third elections within a span of five years were held in October 1993 and Benazir was voted to power for the second time. Due to excessive floor crossings, differences with the President and lack of accountability, the President dissolved her government second time. The fourth caretaker government with Farooq Leghari as President and Meraj Khalid as Prime Minister remained in power during the interim period. Elections were held in February 1997 and in a land slide victory Nawaz Sharif was voted Prime Minister for the second time. In a short span of time the government in power had introduced major reforms. Salient were abolishing of infamous 8th amendment and ban on floor crossing. The government had clear majority in the national assembly therefore people were expecting revolutionary reforms. Nawaz's government in spite of tremendous pressure from the world carried out the nuclear tests. The very next day the government ceased foreign currency accounts, which resulted in economic recession as the local and foreign investors lost confidence in government policies. In 1999 Mr. Nawaz Sharif removed two Army Chiefs, General Jehangir Karamat and General Pervez Musharaf. The latter was removed once he was away from the country. He did not accept the decision and took over control of the country as Chief Executive of Pakistan on 14 Nov 1999.

2.1.9 1999 to date

General Pervez Musharaf dissolved the assemblies and selected his aides. His first step was to recover loans from the defaulters through National Accountability bureau. He and his team focused on economy and increased the foreign currency reserves to \$12.5 bn. It was partly due to government's economic policies and partly due to 9/11 incidence of world trade centre. After this incidence there has been a great influx of foreign exchange in Pakistan through the expatriates specially from USA. The stock exchange

showed tremendous growth and has risen to 6500. Industrial growth has also been experienced during his tenure.

He also conducted referendum and became President and then held the elections on party basis which Pakistan Muslim League (Quaid-e-Azam) won the elections and Mir Zafar ullah Khan Jamali became the Prime Minister who after serving for two years was forced to resign. Chadury Shujat Hussain took over as care taker Prime Minister for few weeks and handed over the powers to Shaukat Aziz who won the by elections from two constituencies.

Although the economic indicators show good progress but the inflation has also increased with a great pace. The government has not yet taken any decision on construction of any major dam, which will surely cover the shortage of water and produce thousands of MW cheap electricity.

2.2 The Causes of Political Instability

Analysis of paras ante reveals, it is not the question of the selection of political system because we have experimented with both in all possible ways and means. More pertinent would be to remove the anomalies, make it just, fair and balanced, so as to suit our culture. The guiding principal should be to impose the society/needs on the system and not to impose an alien⁶ system on to society. If this be the objective, some prevalent lacunae, which merit reconsideration, are deliberated upon in succeeding paragraphs.

2.2.1 Profile of Political Parties

⁶ Democracy and its Crisis by Robert A. Dshl p-251

Political parties are now the personal property of their heads. These are personality oriented to an extent that on departure of the leader, the party disintegrates because no one else can bridge the vacuum. In fact these parties are more or less fiefdoms. To radically alter the existing profile we need to enact rules, which should make it mandatory to hold transparent party elections regularly. Their account too should be subjected to audit. If these and allied reforms are not undertaken, the political parties will continue projecting "one man show".

2.2.2 Decentralization

Pursuant to power grabbing syndrome of highest hierarchy, the real victims are the men in street. Since power analogous to centre is not shared at provincial level therefore one has to reach the power centers for dispensation of justice, and miscellaneous civic amenities. The constitution must have provisions to delegate responsibility at the lowest level may it be village, municipal or district level. Civic amenities and local services such as water, transport, health and area development should be left in the hands of local governments. Decentralization and division of power among centre, province and local governments needs considerable compromise but its adoption will definitely settle the existing discontentment.

2.2.3 Proportional Representation

To effectively check the menace of feudalism, a plausible solution could be the elections based on proportional representation and not on individual constituencies. Under this system, the political parties would receive proportional representation based on total number of votes received nationally. Elections of candidates would not be dependent on local feudal lords; therefore the party would be able to offer candidates on basis of merit. With such adoption centre of gravity may shift to larger cities, which in turn will ensure entry of educated middle class. Turkey and Israel use this model, their experience should be studied in the context of Pakistani conditions.

2.2.4 Affordable Politics

Although Election Commission has very clear rules regarding limit of electoral expenses, but in reality these rules do not apply physically. Resultantly the cost of elections is exorbitantly high, which middle class can not even dream of. Even party tickets are sold off to enable candidates to contest in elections. Campaigning and at times buying of votes raises the barrier even higher. This in turn makes the elections a commercial project wherein the candidates endeavor to quadruplicate their initial investment through nefarious means. A potent need exists to apply the rules of Election Commission in letter and spirit.

2.2.5 Restoration of Institution

In any form of government, the triangle of power is rested on three essential sources. namely Executive, Judiciary, and Parliament⁷. Analysis of our political history would reveal that all along concerted efforts have been undertaken to blend all the powers into one. The absence of rules of games exerted its toll ⁷and none of the three could play its part. Traditionally the head of state has always undermined the independence of the institutions. Conversely institutions too have been serving the head with a symbolic master - servant relations. There have been agonizing examples as to how judiciary was manipulated to dispense justice not on merits but on demand. Dismissal of Khawaja Tamneez uddin, trial of Z A Bhutto and introduction of law of necessity were some of the most controversial decisions taken by the judiciary. Ripples created by Federal or Supreme Courts reached lower courts too, which enabled critics to criticize the entire spectrum of judiciary. It is an accepted fact now that mostly courts deliver manipulated decisions. In our society justice is not blind, it has eyes and ears to

⁷ Democracy by Dorothy Pickles p-142

perceive the way it opts to tread. Judiciary is the most respected institute, it symbolizes the freedom of nation therefore its manipulation tantamount to seizure of freedom and has grave consequences. Similarly all institutions, may it be education, civil work, railways, commerce, irrigation, foreign affairs, revenue, police etc have been subjected to massive manipulation by the elected representatives. it is a well known fact that the institutions sell their services gratis and the share of plunder is well distributed to all rungs. In a culture where local administration caters for the personal expenses of provincial members, no good for the citizenry can be expected. The institutions are now in such a morass that they are barely working on 10% of their expected efficiency. To revive them only one reform is required, that is to make them independent. Delay in this direction will gradually convert the government machinery into a mammoth parasite and a source of massive discontent.

2.2.6 Nepotism

Merit is non-existent in Pakistan. Scarce employment opportunities are distributed on connections. Even to enroll a peon, one needs blessings of a minister. More often than not, these vacancies are sold; this is how the criminals found way into police. Federal Public Service Commission and Employment Exchanges are dormant organizations which produce only discontent. Deviation from merit in a society has extremely serious repercussions. The confidence of citizen in the government evaporates and the society becomes disillusioned. There is a strong need to revive the rule of merit so as to restore the confidence of people.

2.2.7 Role of Media

Yellow journalism has most probably caused maximum damage to the society. Every political party has established disinformation cells, which through courtesy of media mostly succeed in conveying distorted facts to people. The whole system is based on arm-twisting and kickbacks. The governments have traditionally resorted to arm twisting either through various ordinances or by reducing newsprint quota or else by not allocating official broadcast the view point of ruling elite only. In the prevalent conditions, the people are constrained to turn to other alternatives such as foreign channels to ascertain the truth. Media is an important tool to reach the masses; it must not be corrupted for the sake of political motives. To maintain its sanctity and freedom, it should be given the status of an independent body analogous to Western broad casting agencies.

2.2.8 Law and Order

Political conflicts originating from decentralization and distribution of resources have generated a nexus of law and order breakdowns. The leading causes are ethnic differences, linguistic differences and sectarian differences. Monthly Herald of March 1995 reported that criminals with political patronage now demand and receive significant amount of money. Weak judiciary, corrupt police, availability of narcotics and Kalashnikov culture have accelerated the decay. If drug barons found their way into assemblies and elected representative sponsor such activities then the outcome seems to be logical. The political parties must screen the candidates before issuing tickets, so that candidate with clean record should be admitted as elected representative. The rules should also be modified to an extent that if a candidate is observed to patronizing such activities, he stands debarred from assemblies. Massive reforms are

needed in Police services; the consensus is to introduce 'Police Commissioner' so that citizens can replace the inefficient/corrupt policemen.

2.2.9 The Feudal Factor

A reckonable majority of our political leaders are landlords. Few landlords who exert considerable influence on the politics hold large tracts of prime land. Simple landlords of yesteryears have educated their children abroad and have penetrated all centers of power. This "Kings Club" deeply bonded due to inter marriage has its tentacles in bureaucracy, and in executive classes. The net result is that key groups have become inter related. These groups are powerful and exclusive; entry into this group is virtually impossible. In times of crisis such as imposition of land tax they form a united barrier. The continuous political stronghold of feudal has denied the entry of middle class into politics. The ultimate outcome of such denial has been the lack of interest that the middle or poor class has in politics. Generally the masses are not concerned as to who rules the country. They view their representatives as aliens and in their perspective it does not matter, if one alien replaces the other. Validity of ibid can also be ascertained from number of declining voters. No democracy can deliver dividends in such culture.

CHAPTER – THREE
PAKISTAN’S ECONOMIC DEVELOPMENT
(Specially Industrial Development)
IN HISTORICAL PERSPECTIVE

3.1 Economy in Infancy (1947 – 1958)

The remarkable achievement of the early years was that in spite of a great deal of political instability and initial fumbling of economic policies the key policy objectives- an independent defense capability, rapid industrialization and reduced economic dependence on India were all met. While there was a short-term neglect of agriculture there was a substantial stepping up of spending on⁸ infrastructure including water and power. At the same time there was a fairly rapid expansion of expenditure on social development notably education. Thus even though per capita income stagnated in the 1950s the decade did lay the basis of future growth by sharply increasing investment both in physical and human capital and creating strong economic institutions.⁸

Two major sets of policies helped the outcome. The success in foreign policy was close alignment with the US, which opened the way for large-scale military assistance after 1954. This eliminated the strong competition between defense and development, which had existed till then. On the domestic front the

⁸ Economy at the Crossroads by Pervez Hassan p136-138

⁹ Ibid p-131

almost unlimited protection given to industry after 1952 yielded high dividends. Already by 1955 the domestic competition in the premier cotton textile industry was justified by Haq and Papanek, has been widely criticized⁹. However in the 1950s a high proportion of the high industrial profits was reinvested.

3.2 The Decade of Development (1958 – 1968)

If one examines Pakistan’s economic growth record the 1960s stands out as the decade with the best performance¹⁰. Following table gives a useful indication of the nature of the differences between the 1960s, 1970s and 1980s.

TABLE-1
Growth Rates in Pakistan in Main Areas (average annual %)

	1960’s	1970’s	1980’s
GDP	6.8	4.8	6.5
Agriculture	5.1	2.4	5.4
Manufacturing	9.9	5.5	8.2
Commodity producing sector	6.8	3.9	6.5
Service sector	6.7	6.3	6.7

Source: Government of Pakistan, Pakistan Economic survey 2003-04

Few periods in Pakistan’s history stand out so clearly as 1960-65 for quickening the tempo of growth. Ayub’s storing commitment to development, his support to public institutions for planning and development, his unhesitating use of foreign economic assistance, his willingness to reduce reliance on direct economic controls and thus improve the investment climate for the private sector and his ability to delegate authority to his economic managers were all responsible for the dramatic turnaround in investment and growth in both East and West Pakistan in sharp contrast to the economic stagnation in the second half of the 1950s.

The development momentum was seriously disrupted by the 1965 war with India. The reduction in foreign aid availability and the increased defense

10 Issues in Pakistan's Economy by S. Akbar Zaidi P,5

Spending squeezed investment especially in West Pakistan. Even though growth rate of GDP remained high both in East and West Pakistan in the second half of the 1960s, this growth was concentrated in agriculture especially in West Pakistan. The manufacturing sector was provided a high rate of effective protection on domestic output and a high rate of effective subsidy on exports through export bonus scheme essentially a system of multiple exchange rates. Large unearned economic rents accrued to industrialists. There was thus little incentive for structural change in industry and exports. While industrialists were pampered, controls on labor remained strong¹¹.

3.3 Bhutto's Experiment with Socialism (1971-1977)

The speed and the scale of the economic policy initiatives and interventions during the five and half years of Bhutto's rule have few parallels in Pakistan's economic history. Extension of state control over industry, banking, insurance and education nearly trebling of the real public sector development spending and attempts at land reforms were all motivated at least in part, by the concern with the distribution issues though political consideration of consolidation Bhutto's rule also played an important role. Unfortunately for Bhutto, the economy, which showed a spurt of 7 per cent per annum expansion in the first two years, slowed down to just over 3 per cent annual growth during 1974. Nationalization of industry put a break on investment, which contributed a great deal in slowing down the growth. One of the biggest policy failures was not to reach an understanding with private industry, which had been the engine of growth in 1960s. Lack of a clear policy, which pushed investment towards the informal sector, resulted in precipitous decline in private investment in large-scale

manufacturing. Much more than their adverse short-term impact, Bhutto's economic policies must be faulted for their negative effects on long-term growth

11 Economy at the Crossroads by Pervez Pakistan's P-182

Development. Apart from their negative impact on private industrial development, Bhutto's policies had adverse long term economic consequences through increase in defense establishment, nationalization of industry and educational institutions, a cavalier attitude towards public spending and last but not least serious erosion of the capacity and authority of public sector institutions.

3.4 Zia's Era (1977-1988)

General Zia's regime was more liberal in economic terms though certainly not politically than any of his predecessors. While the civilian military bureaucracy played a prominent role in acquiring capital and in assuming the role of entrepreneur and financier, numerous individual capitalists emerged in the ¹⁰stable post – Bhutto era. High rates of industrial growth were led by the coming on stream of earlier investment made by the public sector under Bhutto especially in heavy industries and also by a rapid expansion in domestic demand.¹² While the trend to liberalize the economy was escalated consciously in the Zia period, the Soviet invasion of Afghanistan and the excessive involvement in Pakistan by the USA helped ensure that steps were taken to increase growth which was synthetic. By becoming the capitalist worlds front line state against Soviet expansionism in the region Pakistan's government gained in terms of financial aid resources. However General Zia's martial rule inflicted deep-rooted damage to Pakistani society. Two major negative trends were as follows:-

- A large proportion of weapons meant for the Afghan guerrillas filtered into the illegal arms market which have since 1980

12 Issues in Pakistan Economy by S. Akbar Zaidi p-6

continued to flourish not only within the Pakistan's borders but also internationally through the world-wide illegal arms trade network.

- Afghan refugees in whom influential locals who joined later started flourishing in the country organized narcotic drugs trade. These

developments besides creating a roaring parallel economy in the country came to pose a threat to the maintenance of civil law and order.

Rapid growth, widespread prosperity and relatively stable prices made the Zia period appear to be an era of exceptional political and economic stability in Pakistan's history. Like Ayub, Zia relied heavily on the bureaucracy for economic management and the bureaucrats did a fair job of short-term economic management partly under pressure from international financial institutions, which provided critical balance of payments support in the early and mid 1980s. The manufacturing sector got impetus as most of the nationalized units were denationalized and the private sector started playing its role in the industrial growth.

However major structural weakness remained in the economy and indeed was intensified in some instances. Even though medium term economic planning was revived in 1978 long term policy issues were either not pursued with any seriousness or suffered due to poor implementation. Government expenditures adjusted for inflation increased nearly 150 percent during 1977-88. Equally serious, there was a major shift in the public expenditure priorities from development to defense. Real defense spending increased on average by 9 percent per annum during 1977-88 while development spending rose to 3 percent per annum; by 1987-88 defense spending had overtaken development spending. Thus by the time the Junejo government was dismissed in May 1988 the economy was again in serious trouble.

3.5 Economic Management Under Democratic Governments (1988-1999)

3.5.1 Benazir Government (1988-90 and 1993-96)

Benazir government consisted of two tenures i.e. 1988-90 and 1993-96. First era was full of fluctuating trends in the macro economic variables. Growth rate of GDP declined further from 6.2% to 4.7%. As a result of lower growth of economy and higher growth rate of population per capita income increased at a lower rate of 1.6% per annum. Investment reflected a fairly reasonable level of 17.2% of GDP and saving increased 14.2% in 1988-90. Prices reflected a considerable increase from 4.8% to 8.2%. During second tenure growth of economy decreased further to 4.4% due to bad performance of agricultural sector in 1993-94¹³. Industrial units began to close down due to very high electricity charges. PPP government made contract with IPPs and got electricity at higher price through corrupt practices. The input cost of manufacturing sector increased manifold and the prices went high. Many industrial units could not sustain the pressure and decided to close down.

3.5.2 Nawaz Sharif Regime (1990-93 and 1997-99).

During the first three years the growth rate of economy remained as high as 7.7%. The year 1992-93 was the only year in the history of Pakistan when country experienced a negative growth in the per capita income by 1.1%. Nawaz regime witnessed a record level of investment at 19.1% of GDP during 1992-93 due to financial liberalization structural adjustment and incentives for the investors. Budget deficit averaged at 8.1% of GDP during the period¹⁴. Heavy borrowing of finance increased the debt/GDP ratio to 82.4%. Second tenure started in 1997 with a promise to improve the economic situation worsened. However no significant improvement could be achieved which had mainly been attributed to nuclear explosion and subsequent economic sanctions. It is worth mentioning that nuclear test did not injure the economy much as compared to the

wrong policy decisions like freezing of foreign currency accounts and imposition of emergency. No concrete steps were taken by the government

13 Government of Pakistan, Pakistan Economic Survey 1993-94

14 Government of Pakistan, Pakistan Economic Survey 1990-91

to recover defaulted loans and agricultural tax. Economy just survived due to breathing space provided by heavy borrowing and external loans, which led us deeper into the external debt trap and caused the most serious growth crisis of Pakistan's history.

3.6 Musharraf's Tenure (1999 to date)

General Musharraf took over the control of the country in Nov 1999. He along with some technocrats started implementing the policies, which would lead to a prosperous Pakistan. The 9/11 incidence provided impetus to their economic policies. Foreign exchange started pouring in Pakistan and Foreign Reserves rose from \$2 bn in 1999 to \$ 12.5 bn in 2004¹⁵. The GDP increased from 3.9% in 1999-00 to 6.4% in 2003-04. During this period the manufacturing has shown tremendous improvement. It improved from 1.5% in 1999-00 to 13.4% in 2003-04. Following table shows the comparison of growth rate from 1999-00 to 2003-04.

TABLE-2
Growth Rate in Pakistan in Main Areas (%)

	1999-00	2000-01	2001-02	2002-03	2003-04
GDP	3.9	1.8	3.1	5.1	6.4
Agriculture	6.1	-2.2	0.1	4.1	2.6

Manufacturing	1.5	9.3	4.5	6.9	13.4
Commodity producing sector	3.0	0.5	1.3	4.9	7.7
Service sector	4.8	3.1	4.8	5.3	5.2

Source: Economic survey 2003-04

15 Government of Pakistan, Pakistan Economic Survey 2003-04

CHAPTER – FOUR

INDUSTRIAL PROFILE OF PAKISTAN

4.1 Historical Background

After attaining independence in 1947, Pakistan was faced with the task of translating into reality the promise of providing a free and prosperous life to the inhabitants of the new country. To begin with administrative organization and rehabilitation of the refugees drew the entire attention of the Government. In the economic field the Government was taking adhoc decisions as problems arose as such there was no integrated program. The country's decision not to follow suit at the time of devaluation of the British Pound and the Indian Rupee in 1949 coupled with collapse of Korean War boom in 1952 resulted in shortage of manufacturing goods in the country. However collaborate control systems to deal with foreign exchange crisis actually led to the initiation of the process of industrial growth¹⁶.

At the time of independence, Pakistan was primarily an agricultural economy. Rice, wheat and other cereals (maize, jawar and bajra) were the main food crops while jute, cotton and sugarcane were the main cash crops. The economy was related to the international market through the exports of primary products like jute and cotton. There was hardly any large-scale industry in the

country as the foundation of industry in India was laid largely by the British, who settled around the ports. Factories were built around ports and in those areas, which had coal, iron, other fuels and raw materials. Out of total number of 14,569 organized industrial units in the Sub-Continent only 1406 or 9.7 percent were situated in Pakistan¹⁷. Quite understandably therefore at the time of independence the capital base was small and credit and financial institutions

16 Strategies for economic Development report by Asian Development Bank p-356-357

17 Report of industrial planning committee government of the Punjab 1947 P.26

were under developed in the territories falling in Pakistan. The tax base was also narrow due to lack of any capitalist sector and wide spread poverty.

4.2 Agriculture Versus Industry

At the outset it may be stated without fear of contradiction that the main thrust of modernization efforts of the country's planners has been to create a reasonably large capitalist industrial sector and to transform agriculture into a modern industry. The planning strategies however, have been articulated through different political perceptions and the changes in policies appear to represent sharp reversal.

The importance of agriculture is much greater as it provides the bulk of raw materials for the cotton textile, leather, sugar and other agro based industries both in large and small-scale industries. In the fifties our planners were rightly enthused with the idea of rapid industrialization. The First Five Year Plan (1955-60) had emphasized the development of industry and agriculture was comparatively neglected. As a result there was a large food deficit at the end of plan, which was filled in through imports (Rs 700 million)¹⁸. The situation demanded immediate attention and the Second Five Year Plan (1960-65) saw a larger allocation for the development of agriculture that its average per annum growth rate reached 5 percent for the decade¹⁹. The new technology based on seed, tubewell, fertilizer and tractor did bear fruit in the shape of "Green Revolution". Over the second Five Year Plan alone value of crops out put in West

Pakistan grew by 26 percent and in East Pakistan by 20 percent²⁰. Thereafter, the planners have tried to keep balance between the two sectors with varying success.

18 Second Five Year Plan 1960-65(June 1960) P.2

19 Strategies for Economic Growth and development Report by Asian Development Bank
1985, p-339-340

20 3rd Five Year Plan, 1965-70 p-396

It may be pointed out that industrialization in Pakistan failed to reach the coveted take-off stage. Amongst many other reasons for this failure one important reason was that productivity did not show a substantial improvement in the agricultural sector. Without the required improvement in the agriculture sector any attempt to accelerate industrialization was likely to be frustrated on the supply side by shortage of food and raw materials and on the demand side by lack of increase in the purchasing power.

4.3 Labour Versus Capital – intensive strategy

A developing country can adopt one of the two development models that is labour intensive or capital intensive depending upon its natural resources as it has a notable effect on the character and pattern of industrial development. Heavy industry is usually capital intensive as opposed to the light industry, which more often than not is labour intensive.

Labour-intensive model uses more labor as it is related to light consumer goods industry in an economy that is short in capital but had abundant labour. The low labour cost has its effect on the total costs. The purchasing power has a wider distribution amongst those who will quickly spend it mainly on consumer's goods. The capital will be thinly spread over a large labour force, which is otherwise unproductive.

Capital-intensive model on the other hand is identified with large-scale industrial production of heavy or capital goods. This model is based on the

premise that a cumulative increase in production and national income stems from a substantial increase in productivity of labour. This can be achieved only by adoption of increasingly efficient techniques and machinery requiring heavy application of capital. The employment will be lower in the initial stages but it will accelerate rapidly and soon outstrip the initially higher levels obtaining in the labour-intensive model. Under this model therefore, maximum capital-intensive investment in the basic industries later makes possible a more rapid increase in consumer goods industries.

An analysis of Pakistan's industrial development shows that it had neither followed the labour intensive not the capital-intensive model. It began with the assumption of the first model i.e. light consumer goods production but it did not use the related labour-intensive techniques. Instead it adopted the capital-intensive techniques of the second model, which were more suitable for the development of the large-scale heavy industry. The scope for such a mix was very limited. It is this fact, which seems to have led to an imbalance in the economy. On the one hand it has retarded the growth of the small-scale sector and on the other hand there is continuous reliance on the foreign aid to maintain a particular level of industrial growth.

The concentration of industry in a few hands has led to considerable debate in the country both on political and economic fronts. Dr Mahbub-UI-Haq claimed in 1968 that 66 percent of the country's total industrial assets were controlled by 22 families²¹. A later study had shown that although Dr Mahbub's claim was highly exaggerated the degree of concentration was infact quite large. In 1970 it was estimated that 44 business houses controlled 77 percent of the large and medium scale assets²¹. The seven banks controlled by these business houses accounted for 60 percent of total deposits and 50 percent of total advances of all the banks. The members of these business houses had also a big chunk of representation on the boards of directors of financial institutions such as the PICIC, the ICP and the NIT²¹.

4.4 Development Strategy

As already stated in the preceding study there was hardly any industry in Pakistan at the time of independence. After the government's decision not to

devalue in 1949 it became necessary to impose exchange controls and restrict imports. As a result the planners adopted a policy of import-substitution industrialization (ISI) as it was the need of the time. After the Korean War boom was over Pakistan did not follow India in devaluing its currency and the trade between India and Pakistan broke down which led to an extreme shortage in manufactured goods in the country. At the same time the quantitative restrictions

21 "The Management of Pakistan's Economy 1947-82"b by Viqar Ahmed & Rashid Amjad P-213, 217,218,219.

on imports and exchange control had made domestic manufacturing very profitable. These measures were enough to lay the foundation of import-substitution industrialization. The main features of this strategy as it was manifested in its implementation can be described in the following lines:-

- Special attention was paid to the creation and growth of a domestic entrepreneur class. This was done by providing financial incentives and favorable market conditions. Tax holidays, cheap credit facilities and concession in custom and excise duties were provided. Imports were restricted which reduced competition from the international market. Results were quite successful as a new industrialist class was created over a short period of few years.
- The process of industrialization was financed through the transfer of resources from agricultural to industry on the lines of classical capitalism. The mechanism involved was as follows:-
 - Through over-valuation of currency and control of the government over allocation of foreign exchange the exporters of primary products surrendered a considerable part of value to the government. The government passed this value to the industry that got import licenses and foreign exchange at official rate.
 - The government followed a policy of compulsory procurement of food grains in the country and its sale in the urban areas was at subsidized rates.

- The agricultural prices were kept low through price controls thus turning the internal terms of trade against agriculture.
- Another step taken by the government was the establishment of the Pakistan Industrial Development Corporation (PIDC) in 1952. It was charged with the responsibility of promoting industrial development by equity participation and to setup its own projects. As soon as these came to break even point the corporation was expected to disinvest the same as was done in Japan.

Pakistan had embarked upon capital-intensive industrialization as such the large and medium scale industry showed impressive results as in the first half of fifties: it showed a growth performance of 25 percent per year. However its stagnation in other sectors and exhaustion of initial import substitution resulted in much slower growth rate by 8 percent per annum in the second half²².

By the late fifties, the limitations of the ISI were becoming apparent as the domestic market had become saturated and import substitution in most consumer goods was completed while agriculture sector stagnated and as such the expectations of growing demand failed to materialize. An increase in domestic competition with stagnant demand lead to falling profits was an important cause of decline in the growth of large and medium scale industry whose growth fell to 5 percent during the last few years of the decade²³.

At the time of the second five-year plan in 1960 the planners placed greater reliance on market mechanism and fiscal and monetary policies instead of direct price and allocation controls. Emphasis was to continue to be placed on the private sector. The new policy was very successful in reviving industrial growth. During the second five-year plan the large scale manufacturing saw a growth rate of 17 percent.²⁴ The price of domestically manufactured goods was kept high as foreign goods were kept out. On the other hand the prices of food and raw materials were held below the world prices. The combined effect of these policies was that it allowed the domestic manufacturers to earn enormous profits. There were attempts to liberalize imports controls through open general licensing system in 1961 followed by free list in 1964²⁵.

4.5 State Nationalization

The growth of industrial sector was rapid in sixties but it entailed a number

22 Strategies for Economic Growth and Development “ Report by Asian Development Bank, 1985 P.339

23 Ibid P.357

24 Ibid p- 357

25 “The Management of Pakistan’s Economy 1947-82”b by Viqar Ahmed & Rashid Amjad P-158

of issues, which spilled over to the political tussle of the seventies. It was also envisaged in the manifesto that capital and intermediate goods industries would be set in the public sector²⁶.

The PPP Government implemented its manifesto and in January 1972, the management nationalized thirty-one large firms in ten basic industries. These basic industries sometimes referred to as the “commanding heights of the economy”. In 1973, the government nationalized the vegetable ghee industry export trade in raw cotton and acquired ownership of industries. In 1974 the government nationalized petroleum distribution, shipping and took over export trade in rice. In 1976 several thousands cotton gins, flour and rice mills were nationalized²⁷. The firms, which had foreign investment, were kept out of the scope of nationalization policy. As a result of nationalization policy no compensation was given to the owners of the taken over firms. After nationalization the public sector share of fixed assets of large-scale industry increased to one third of the total fixed assets. At the same time there was a sharp increase in public investment. The actual expenditure was over rupees 40 billion²⁸.

These policies by no means meant that industry was discarded as the engine of growth. However, the emphasis shifted to big sophisticated industrial units to increase self-sufficiency in the intermediate and capital industries. In a way it was continuation of ISI except that the stress was not on the consumer goods but on the intermediate and capital goods, which till then were being imported. The public sector which was in control of the basic industries was in a

better position to command resources and it did make large investments in industry. It obviously would have a crowding out effect for the private sector. In 1969-70 the share of the private sector in the total investment in the large-scale manufacturing was 87 percent while in 1976-77 it had fallen to 28 percent ²⁹.

26 Ibid P.374-375

27 Ibid P.375-376

28 Ibid p, 383

29 Ibid p, 381

The remaining 72 percent was being invested by the public sector. Due to the governments' policy of nationalization the private sector become highly apprehensive and its initiative remained paralyzed for greater part of the seventies.

During the period 1970-77, therefore, the large-scale manufacturing remained stagnant and grew at the rate of only 2 percent per annum as against 12 percent in the sixties. Its share in GDP fell from 12.5 percent to 10.7 percent³⁰.

Combined with the factors mentioned above the seventies also inherited the comfort regime of protectionism which prevailed in the fifties and the sixties leading to continuance of efficiencies in the industrial sector. Although certain measures at liberalization of imports did take place but the tardiness of industrial growth persisted.

4.6 Post State Nationalization and Privatization

The military regime, which took over in 1977, saw a reversal of economic policies of the previous regime. Five-year plans, which had been abandoned by the people's party regime, were re-introduced and the Fifth Five Year Plan (1978-83) was launched. As for industry, the Agro based industrial units were de-nationalized immediately to restore the confidence of the private sector. The Fifth Five Year Plan envisaged that the ratio between public and private investment in manufacturing industry would decrease from 75 percent share of the public sector to a rough parity ³¹.

The strategy to revive the private sector was pursued vigorously and a number of incentives, which were present in sixties, were reintroduced. The government was convinced that export orientation along with import liberalization was the sound basis for long run industrial growth and followed it with practical steps. Thus the strategy of manufactured exports (ME) was decided to be

30 *ibid* p, 379

31 The Sixth Five Year Plan 1983-1988 P.158

followed as an engine of industrial growth. A flexible exchange rate, liberal trade policies, relaxation of economic controls and an incentive package including tax holidays, income tax concessions, export rebates etc were introduced during late seventies and eighties. The system of credit allocation for the private sector was organized and a start was made to take the public units away from budgetary financing.

As regards the public sector units, which had over 50000 persons the government could not undertake large-scale denationalization throughout the eighties because of political and administrative reasons. Neither was it possible to abandon the public sector investment programme because a massive investment of over Rs 40 billion was under way and a large proportion of the funds had either been spent or committed under international contracts. The government therefore decided to restrict the investment programme to only the ongoing projects. At the same time to improve productivity and efficiency of the existing public sector units, a policy of balancing modernization and replacement (BMR) was introduced ³².

The result of these policies were encouraging as their over-all effect was a gradual recovery of output, private sector industrial investment and exports. During the Fifth Five Year Plan the manufacturing sector showed a growth performance of 9% per year. The manufactured exports also increased by 8% per annum ³³ and private investment in the large-scale manufacturing was of the order of 12% per annum. The trend continued during the entire period of eighties. This rate of progress was quite impressive considering that this period also was the second oil price hike and the world recession that followed it.

During PML government a privatization commissions consisting of MNAs/senators, federal secretaries, chairman banking council and representative of the private sector was set up in January 1991. The commission submitted its reports directly to the Cabinet Committee on Privatization chaired by the Finance Minister. The Commission was entrusted with the task of

32 " Report by Asian Development Bank, 1985 P.384-385

33 Ibid, p-392

disinvesting 115 public sector enterprises.

In addition to disinvestments of public sector industrial units, the government in the late eighties and early nineties has followed a policy of deregulation of industrialization process and liberalization of imports. Removal of restrictions on setting up of new industries, tax holidays, exemption from import duties, a higher debt equity ratio, reduction in the number of items on the negative import list, introduction of incentives to foreign investors etc are the measures adopted during this period to achieve rapid growth in the industrial sector³⁴.

During the PPP government the industrial sector did not make any progress rather the growth retarded and a number of units were closed down because of unprecedented very high cost of electricity. During Musharaf's regime the industrial sector made progress at a slow pace and in year 2003-04 made a good progress of over 13%. It is because of continuity of policies and good incentives for foreign investors.

4.7 Structural Profile

. From a state of near nonexistence at the time of independence industry has shown quite an impressive progress over the intervening period. As a result the economy has undergone considerable structural change. Annexure A shows the composition of Gross Domestic Product since 1949-50. It is indicative of the fact that Pakistan has moved from an agrarian economy to a semi-industrialized economy. The share of agriculture had declined from 53 percent of the GDP in

1949-50 to 23.3 percent in 2003-04 and share of the manufacturing sector has increased from 7.8 percent to 17.5 percent of the GDP.

Looking at the structural changes from the technological point of view, a striking aspect of change is that the capital-intensive industries such as sugar,

34 Industrial Policy Packages Ministry of Industries 1984, 1988 and 1992-93

cement, fertilizers etc have increased their share at the expense of the more labour intensive industries such as textiles and light engineering. The reasons for this were most likely the extremely distorted factor price ratio in the sixties and dominance of public sector investment in the seventies.

CHAPTER- FIVE

GOVERNMENT POLICIES AND INSTITUTIONAL

FRAMEWORK

5.1 General

In the last chapter we have seen the development of the large and medium scale-manufacturing sector over the last five decades. The period is characterized by an un-even pace of progress, which is modestly impressive.

No industrial development can take place unless there is initiative on the part of entrepreneurs. Briefly the following steps were taken by the government for the creation and growth of a domestic entrepreneurial class ³⁵:

- Tax holidays
- Rebate on super tax on profits
- Tax exemptions
- Exemption from interest on foreign loans
- Establishment of special financial institutions to provide cheap and concessionary credit facilities
- Rebate in customs and excise duties
- Setting up of new units in the public sector and then disinvesting the same to the budding entrepreneurs.

The results were quite impressive as a new industrialist class emerged in the fifties, which carried out almost the entire industrialization in the country. The government's policy of providing incentives to the process of industrialization has however continued with varying emphasis, as we will see in the following paragraphs.

35 Based on information given in Industry Policy 1949/1959.

Despite all measures taken by the government, adequate measures were not undertaken for development of infrastructure, an important element for the growth of industry. Out of 57 industrial states in the country only 16 have the needed infrastructure and even these lack proper culture. Churian Industrial State, a classical example of an industrial state without requisite infrastructure facilities. While investors in big and large industries really do not need the facilities provided by the industrial state since they can effort to create their own infrastructure, industrial estates are of great value to small industries and therefore need to be encouraged and multiplied. Government obligations to provide these facilities must be fulfilled.

5.2 Taxation Policy

From the very beginning, the government has used tax incentive for promotion of industrial sector. Industrial investment was encouraged by allowing tax exemptions and rebates on industrial profits. The history of this policy is traced as below ³⁶:

- A system of tax holidays was first introduced in 1959 for new industrial units. It also covered expansion of the existing units. It covered only those industries, which were based on local raw material. Tax holiday was available for periods of 4,6 or 8 years depending on the location of the industry and for this purpose the country was divided into three regions according to their level of development.
- The above facility was extended to nearly all industries in 1965.
- In 1965, the period of tax holiday was reduced by two years in all cases.
- In 1970, the facility was withdrawn from the most developed region.

36 “ Report by Asian Development Bank, 1985 P.364-365

- In 1972 the Peoples Party government did away with the scheme from retroactive effect from the assessment year 1971-72.
- After the fall of the Peoples Party government, the martial law government reintroduced the system of tax holidays. Investment in the least developed areas was made eligible for a five year tax holiday.
- In the eighties some other measures were also introduced. Tax rebate of 15% on investment in BMR, rebate in corporate super tax, elimination of surcharge on company tax are some of the measures taken by the government.
- The government decided to deregulate the economy after taking over power in 1990. On the fiscal side it introduced a number of incentives. A three years tax holiday was allowed throughout the country to all industries set up between 1st December 1990 to 30th June 1995. For under developed areas this concession is for eight years. Similarly five years tax holiday is allowed to all industrial units set up in the rural areas between 1st December 1990 and 30th June 1995 ³⁷. The taxation policy is more or less the same in the present regime.

5.3 Import Policy

In 1952 Pakistan adopted a system of import licensing and quantitative import controls to deal with its balance of payment problems. Rupee had not been devalued after the collapse of Korean War raw material boom. The system allowed the rupees to remain over valued which in turn created excess demands for imports at duty paid prices and made rationing of imports via quantities control measures. The system also effectively redistributed income from Agriculture to industry. Tariff walls were high and quantitative controls were

37 Pakistan Investment Guide Ministry of Industries 1992-93 Chapter V Fiscal and Monetary Incentives P.41-42

stringent. The protection thus provided to the local entrepreneurs was probably the most important factor in the rapid growth of manufacturing during this period. Consumer's goods were levied with the highest rates thus encouraging local production of consumer's goods. However, as a result of this the growth was mainly restricted to the industries based on domestic raw material and once the domestic market for products based on domestic raw material was saturated industrial growth declined sharply.

The first Martial Law government came into power in 1958. It did away with most of the direct controls on imports profits margins and investments, which were started in the fifties. The liberalization process was taken in 1964 when free list for selected raw materials was introduced. However this liberalization reversed to meet the foreign exchange shortages, which arose due to 1965 war, and the government once again opted for direct controls. As a result large scale manufacturing growth rate fell from 17% (1960-65) to 10% in 1965-70. Foreign aid which amounted to 6% of the GNP financed 40% of the import bill in 1964-65 helped the import liberalization policy and industrial growth is evident from the reversal of growth rate in post 1965 era³⁸.

The People Party devalued the Rupee in 1972. The import policy also underwent a change. Although the overall direction was towards liberalization, a system of Free and Tied Lists for imports were started. Items falling in the free list could be imported by any importer after getting a license. The tied list had items which could be imported from a particular country while items which did not appear on any list were automatically banned. However new items were added on to the free list every year. Initially the free list contained about 300 items, which increased to 407 in 1976-77. The licensing process however was cumbersome and lengthy while foreign exchange was scarce. As a result licenses were difficult to get and the process of liberalization was handicapped. As for import duties, these were initially lowered to offset the impact of devaluation of 1972. Then duties were adjusted upwards on primarily revenue

38 " Report by Asian Development Bank, 1985 P.359

considerations. After the floods of 1973 a surcharge was imposed on all dutiable imports. In 1974 higher import duties were levied to make up for the loss after the abolition of export duties. Although the devaluation of 1972 made it possible for the government to liberalize import policy relative to the policy in the 1960s unfortunately industry was not in a position to take advantage of this liberalization and therefore the impact of the later on industrial growth was limited.

After the fall of the Peoples Party's government in 1977 the new regime continued with the policy of import liberalization. Initially the free and tied lists held the field. However, the number of items on the free lists was gradually increased. Other elements of liberalization were streamlining the procedure of import licensing and elimination as well as rising of value and volume controls on imports.

The import policy of 1983-84 saw a change in the existing scheme of things. A system of negative list of items was adopted. Whereas previously all items specifically permitted were banned, under the new policy all items not specifically banned were importable. 148 banned items were made freely importable and in September 1983 another 70 items were removed from the negative list. Although import licensing continued, licensing ceiling for permitted import was eliminated. Thus a large number of items, which were subject to quantitative restrictions, were shifted to tariffs. At the same time complete or partial exemption of customs duty was granted on imported machinery and equipment. Investment in the least developed areas was given complete exemption from customs duty while the medial region was allowed 50% exemption. The result of this policy was that availability of raw materials and of capital goods was increased to the industrial sector.

During the late eighties and nineties the government further liberalized the import policy. All the industrial units setup between 1st December 1990 and 30th June 1995 in the least developed areas were exempted from duty. Industrial estates were also given complete or partial exemption. Import duty on raw materials was scaled down. The present govt. is also very liberal on imports and

reduced duties on numerous items especially the machinery to boost the manufacturing sector.

5.4 Foreign Exchange Policy

The currency of Pakistan has been kept over-valued for most of the time since independence. This has made rationing of imports and foreign exchange necessary. Throughout the fifties foreign exchange quotas were in vogue. In 1959 the government introduced Export Bonus Scheme, which allowed exporters of manufactured goods to receive a percentage of their export earnings in the form of transferable bonus vouchers in addition to the rupee equivalent of their export earnings converted at the official rate. The holder of the voucher could purchase an equivalent amount of foreign exchange at the official rate or could sell it in the market at a premium. The vouchers were quoted in the stock exchange and were usually 1.5 to 1.8 times of their face value³⁹. On the export side this scheme compensated the exports for the over valuation of the rupee allowing them to compete in the international markets. On the import side it provided some flexibility to the import licensing system. Through it industry was able to import items which were critical to its functioning.

The declining foreign aid and shortage of foreign exchange in the late sixties led the government to introduce cash-cum-bonus list for most raw materials in 1967. After the devaluation of 1972 the bonus voucher scheme was abolished. Instead free and tied lists of imports were introduced. The devaluation combined with the world commodity boom resulted in under valuation of rupee in the early seventies. Thus the government levied export duties on nearly all exports including manufactured exports. In 1973 these duties touched the peak and then declined as the boom collapsed. By the middle of 1974 all duties on manufactured exports had been removed.

In January 1982 the government took an important policy decision by introducing a flexible exchange rate. Prior to that the rupee/dollar exchange rate was fixed.

39 “ Report by Asian Development Bank, 1985 P.361

In the last few years the government introduced a number of changes in foreign exchange regulations. Restrictions on possessing foreign exchange and bringing in or taking our foreign currency were completely abolished for resident Pakistanis' non-resident Pakistanis and foreigners. Remittance of the principal amount and dividends was allowed through authorized dealers without the permission of the State Bank of Pakistan. In 1998 after the nuclear test by Pakistan, Nawaz's govt. ceased foreign currency accounts, which stopped the influx of foreign currency by Pakistani expatriates as well as foreigners.

5.5 Credit Policy

Entrepreneurs need different types of credit for investment. Long-term credit is needed to buy land, construct factory buildings and to purchase machinery while short-term credit is required as working capital when production has started. The government has been aware of this requirement and has taken necessary steps to ensure availability of credit to entrepreneurs. On one hand it has set up financial institutions to provide finances to entrepreneurs and on the other hand it regulates availability of credit from commercial banks. The institutions that provide finances for industrial projects are Pakistan Industrial Credit and Investment Corporation (PICIC) Industrial Development Bank of Pakistan (IDBP), SME Bank and Khushali Bank.

These Development Finance Institutions (DFIs), as they are known provide financial help to industrial investors in the following manners:-

- Providing long-term and medium term in local and foreign currencies.
- Guaranteeing loan debts and credits of industrial concerns.
- Underwriting the issue of stock bonds or debentures by industrial concerns.
- Subscribing directly to the stock of any industrial concern.
- Collaborating with other financial institutions in financing industrial projects

- Arranging local and external finance from private and institutional concerns.
- Giving technical and managerial advice to its clients in the planning and execution of their projects.

More recently leasing corporations have been setup, which provide machinery to entrepreneurs on lease. In the private sector there are 15 such organizations listed on the stock exchange offering leasing facilities. There are 43 Modarbas listed on the stock exchange, which provide short-term capital in the private sector. Private investment banks are also a recent phenomenon.

Despite the institutions mentioned above the credit supply for industrial development is insufficient and uncoordinated at the national level. Formal financial institutions usually require collateral such as equipment, land and even livestock. But the poor entrepreneurs lack such assets and generally have limited access to formal credit facilities. Loans are also scarce when borrowers lack information and thus face difficulties in securing them. Utilization of credit lines for small scale/cottage industry has not been encouraging.

5.6 Location Dispersal Policy

Balanced regional industrialization has been one of the objectives of government policies. It has been allowing fiscal concessions and investment incentives to favor location of industrial units in backward areas. It has explicitly stated that reduction of regional disparity in industrialization without sacrificing growth, is one of its policy objectives. How far this policy has been successful is debatable. In fact location of industries is determined by a variety of factors like availability of raw materials, infrastructure, skilled labour, proximity to markets etc.

In the sixties, the West Pakistan Industries (Control on Establishment and Enlargement) Ordinance 1963 was promulgated which controlled establishment of industrial unit in the then West Pakistan. After the break-up of the one unit the ordinance was adopted by the provinces. In 1973 the federal government decided to have a uniform location policy in consultation with the provinces from

the point of view of defense. The provinces agreed that:⁴⁰:

- No large-scale industry would be allowed within ten miles of the international border.
- Strategic industry will not be permitted as far as possible to be set up within 50 miles of international border.
- Restriction of half of miles on either side of national highway would continue.
- The provincial governments would identify areas of congestion where new industry would not be permitted.
- Industries to be exempted from this policy would be specified.

In 1979 the government decided to initiate the policy of negative list for location of industrial units. According to this scheme entrepreneurs were free to install industry in any suitable location without permission other than the locations mentioned in the negative list, which was notified in 1980 by the federal government. For establishment of units with fixed assets of more than Rs 3 million, permission from government was required if these were to be set up in congested areas of municipalities as specified in the negative list. Industrial estates falling within these areas were however exempted from this restriction. For all other industry not mentioned in the list no permission was needed from the government ⁴⁰. As of today the guidelines decided upon in 1980 and notified by the federal government still hold the ground. The provinces however have brought about changes in their location policies.

As far as dispersal policies are concerned the government has been cognizant of the need for dispersal and development of industry in the backward regions of the country. As early as in the fifties the country was divided into three regions according to level of industrial development. This division has been retained till recent times with minor changes here and there. The province of Balochistan and most of the province of NWFP, along with a few districts of the

provinces of Sind and the Punjab constitute the least developed areas. The cities of Karachi and Lahore along with areas surrounding some other major cities have been in the category of developed areas ⁴¹. To encourage investment in the less developed areas the government adopted different policy instruments. Following are some of the important measures ⁴²:

- Custom duty exemption on machinery imported for installation in less developed areas.
- Tax holidays for less developed areas
- Tax credit on investment made in the less developed areas
- Tax exemption on incomes from projects in less developed areas
- Fixing credit lines for DFIs and commercial banks for investment in small and cottage industries
- Establishing industrial facilities boards to give special attention to removal of bottlenecks

The recent liberalization and deregulation of controls have not detracted the government from providing incentives for industrial growth in the less developed areas. Following have been specifically provided for the purposes ⁴³:

- Income tax holiday is admissible for 8 years for all industries proposed to be located in the NWFP Balochistan (except Hub Chowki area) FATA, Northern Areas, Azad Kashmir, divisions of Dera Ghazi Khan and Bahawalpur in the province of the Punjab and divisions of Sukkur and Larkana in the province of Sind set up between 1st December 1990 and 30th June 1995.
- Industries set up in the areas mentioned above for the specified period are exempted from levy of import duty, import surcharge and sales tax

41 Pakistan Investment Guide Ministry of Industries 1993-93 P.41.42.43

42 Information based on various industrial policies.

43 Pakistan Investment Guide Ministry of Industries 1992-93 P.41.42.43

- For a period of five years the output of industries set up from the 1st July 1991 to the 30th June 1996 in the NWFP are exempt from payment of sales tax
- Five years tax holiday and exemption from customs duty sale tax and import surcharge is also available to industry setup in rural area.

Although the government favored industrialization in backward areas, the strong budgetary positions of two industrially more developed provinces (Punjab and Sind) and the established industrial centers attracted entrepreneurs whose perception of advantages generally related to resource endowments, availability of raw material, manpower infrastructural facilities, power, water and road network. This obviously implies that the scale of industrial activity will expand in industrially more developed regions. Experience has shown that incentives provided by the government have not been successful in achieving dispersal of industry. The effect of other factors such as local markets, access to raw material and other inputs has out weighed these tax incentives. The overall conclusion emerging from the fiscal incentives presently extended to the backward areas is that by and large they have little locational impact. It also seems that proper briefing and orientation of the entrepreneurs in an organized manner on location of industries in remote and backward areas was totally neglected. Lack of small industrial states in the rural areas is also a contributing factor.

It may not be out of place to mention that the past governments have wasted some otherwise useful investments in a thoughtless pursuit of backward area approach. The Pak-Iran Textile Mills in Quetta, Lasbella Textile Mills in Uthal, Tribal Textile Mills in Dera Ismail Khan, Kawasaki Motorcycle Project in Sialkot, Pasrur Sugar Mills and Harnai Woolen Mills are a few examples of vested political decisions. Instead of helping the backward areas, these projects rather became serious investment risks and a net loss to the nation. It is expected that lessons would be learnt from past pitfalls to avoid another spree of investment failure.

5.7 Labour Policy

At the time of independence labour management relationships were regulated by labour laws enforced by the British. Trade unionism was non-existent, which was largely due to illiteracy, ignorance and fear of dismissal. It was in this background that the first labour policy was announced in 1955 but it could not be implemented. Later a new labour policy was framed and announced in 1959. This policy stressed on the need to settle industrial disputes through such means as joint consultations mediation, conciliation and arbitration. It was also stressed that welfare of labour was not the sole responsibility of the state. Instead the government, the employer and the employee all have a role in this task. The labour policy of 1959 allowed formation of trade unions by workers.

The next labour policy was announced in 1969. The industrial relations ordinance was also promulgated in this year. Emphasis was laid on sound relationship between the employer and the employees to achieve higher productivity and equitable distribution. The principle of collective bargaining was extended to the public sector as well. However strikes in essential services were forbidden.

The Peoples Party announced its labour policy in 1972. It gave a number of benefits to the labourers. Briefly, following were the main features of this labour policy ⁴⁴:

- It was made compulsory for a factory employing more than 20 workers to pay bonus to its workers.
- Worker's effective participation in management was sought. At factory level representation of workers was fixed at 20 percent.
- It was made compulsory for the employer to contribute towards medical coverage of workers.

44 The Management of Pakistan's Economy 1947-82 by Viqar Ahmed & Rashid Amjad
P- 229

- Education cess was levied on the employer to provide education to the children of workers.
- Compulsory group insurance was introduced for industrial units employing more than 50 workers.
- Rate of gratuity, sickness benefits and rate of compensation in case of injury were raised.
- It was made obligatory for the employer to pay pension and to give lay-off benefits in case of closure of factory for repairs, etc.
- Labour courts were setup to deal with cases of labour disputes.
- Managements were forbidden to close down industrial units without permission from labour courts.
- The notice period to strike was reduced from 21 days to 3 days if the management did not respond or there was failure of bilateral negotiation.
- Managements were asked to provide improved social amenities to workers.

In 1973 government adopted employees cost of living relief ordinance and in 1975 the government introduced the system of old age benefits for the workers. The employees old-age benefit Act 1975 was promulgated. Under the act, an allowance was to be given by all industrial, commercial and other undertakings to their workers on completion of 15 years of employment. Other facilities also exist for workers who are too old to complete 15 years of employment.

In the eighties and nineties and recent years of 21st century, stress has been on tripartite consultations between government, employers and workers to resolve labour disputes. Salient features of the labour policys are as follows:-

- Efforts would be made to create an atmosphere of discipline and mutual understanding / friendship.
- Worker's right to form associations and unions was agreed to be protected.

- Adequate security of service consistent with the requirement or discipline and production would be available to the workers.
- Equitable adjustment of rights between the employers and the employees would be ensured.
- In service training facilities would be provided and all promotions made on merit and suitability.¹¹
- Worker would be provided with congenial work atmosphere, living accomodation, school for their children and health facilities for their families ⁴⁵.

Despite all the efforts to improve industrial relations, the industry suffers from effective use of manpower by the employer. This is mainly due to political and outsider's activities in trade unions for their interior motives.

CHAPTER – SIX

FUTURE PERSPECTIVE

6.1 Areas of Advantage for Pakistan

Pakistan enjoys various advantages on account of natural factors. It is in these favorable areas that development needs to be focused. These areas are:

6.1.1 Human Resource

Pakistan has a heterogeneous population of about 140 million. If education and training is provided this population can quickly be harnessed to become a highly productive industrial labour. Trade unionism is fully developed in the industrial sector and in fact what is needed is labour discipline and increase in labour productivity. It may be mentioned that labour wages in Pakistan are higher compared to some of its competitors in Asia

6.1.2 Agriculture

Pakistan has a strong agricultural base producing most of its food. In addition cash crops like cotton, rice and sugarcane are produced more and more each year. Similarly fruit, vegetables and pulses are also finding favour with the farmer. In these areas steady growth is expected well in the 21 century. Development in agriculture enhances the purchasing power of the sector thus creating demand for consumer's goods. On the supply side mechanization of agriculture gives fillip to both services and industrial sector.

6.1.3 Raw Materials

Gas and coal are present in large untapped quantities. Indigenous oil production also shows a yearly increase albeit small. Large deposits of gypsum, limestone, and marble have been discovered and efforts are underway to put these to economic use.

6.1.4 Geographical Location

Pakistan is located on the trade route between Europe, Middle East and Eastern Asia. Similarly the newly opened areas of Central Asia have an access to the seas through this country. This potential if used judiciously and with imagination can yield rich economic dividends.

6.2 Strategy for Eighth Five Year and Perspective Plan ⁴⁶

To be able to exploit the advantages broadly outlined in the above paragraphs detailed strategy has been formulated in the Five Year and Perspective Plans. Some areas are:-

- The cornerstone is self-reliance. Effort would be made to reduce external debt, even if the internal debt increases within manageable limits. Encouraging savings and bringing the informal economy into quantifiable sector are proposed. Similarly broadening the base of taxation and larger recovery of government dues would put new blood into economic development.
- The composition of exports has to change from raw material export to value added goods. Two areas with greatest potential are cotton and leather both of which should get due attention.
- It is also planned to develop labour intensive industries. This would be a fall back to the initial Five Year Plans where the thrust was creation of large number of jobs.
- It is proposed to develop the infrastructural facilities of roads, rail and communication through active participation of the private sector both local and foreign.
- It is proposed to increase power generation capacity in the country to eliminate existing power shortage as well as to provide additional capacity to ensure unrestricted growth in the industrial, agricultural,

46 Based on information given in 8th Five Year and Perspective Plans 1998-2003.

commercial and domestic consumers. Hence again public and private participation is to be tapped.

- It is planned to disperse industries in the backward areas keeping in view infrastructural facilities nearness to markets and availability of raw materials.
- A system of planned liberalization is envisaged. Denationalization and privatization of industry the world over has led to a more congenial relationship between the government and the private sector, promoting mutual confidence and healthy competition. Such a situation is expected to result in higher quality and greater technology development and thus making industry more competitive. The government feels that only heavy industry should be retained in the public sector. Smaller industries are better managed in the private sector. The eight five year plan therefore envisages to complete the process of privatization.
- A major programme of capital market development and reform is proposed to be launched. The effort would be to ensure that the growing volume of resources is channelised in such manner as would mobilize funds into a broad-based capital market. Monetary and fiscal policies are to be designed to keep pace with the rate of growth.
- Attention is to be paid to the social facets of rapid industrial growth. It is to be ensured that the social consequences of industrialization like concentration of ownership, strained industrial labour relations and income inequality are managed in a generally acceptable and harmonious fashion.
- Within the manufacturing sector, special attention is to be paid to the automobile, machinery, electronics, petro-chemical and construction materials industries. These are expected to grow rapidly.

- Self-reliance in defense production is a priority so as to conserve foreign exchange as well as to ensure a better security environment.
- Promotion of small-scale industry is planned to be given due importance keeping in view the fact that a large portion of basic manufacturing is being done in this large but informal sector.
- It is imperative to create new industrial capacity through development of steel based and high technology industries. Most modern techniques and tools both in management and at plant are to be introduced to make Pakistan's industry competitive with other middle-income countries.

CHAPTER – SEVEN

ISSUES AND PROBLEMS HINDERING INDUSTRIAL DEVELOPMENT

7.1 General

Policies of privatization, deregulation and friendly market environment initiated in 1988 have been reinforced, widened and strengthened in the nineties and even today. Public private partnership was also introduced to enable the private sector to play a key role in the rapid social sector development and labour intensive industrialization in relatively under developed areas. Many new measures were taken to attract foreign and domestic investments. The performance of the manufacturing sector during nineties was short of expectations. Although Eight Five Year Plan has spelled out the strategies to overcome difficulties being faced by manufacturing sector, it is felt that unless areas mentioned in the ensuing paragraphs are not addressed to on priority, industrial growth will continue to suffer set backs.

7.2 Infrastructure

Weaknesses of the infrastructure are one of the major hurdles in rapid industrialization of the country. Energy, road, gas, ports, telecommunication and other facilities are inadequate and inefficient to meet the rising requirement of domestic and foreign investments. A massive programme of infrastructure in rural and backward areas is necessary to fully exploit the development potential of the country.

7.3 Political Instability

Political instability ever since the creation of Pakistan has adversely affected the industrial progress in the country. These factors remain the prime concern of domestic and foreign investors. Government policies can only be consistent if there is political stability. Lack of it creates law and order situation, which is detrimental to investment climate. Pakistan is still far from stabilizing these important factors.

7.4 Location

Each tier or enterprise has its own specific problems, for example the size of enterprise poses problems of financing and knowledge of operating industries. Cottage and small industries/entrepreneurs generally have skills and dexterity to manufacture specific items but they do not have capability to finance or market their products. In case of medium size entrepreneurs, identification of industry as well as gathering of information about its prospects is one of the major problems. Large entrepreneurs suffer from the classification of technology formations of joint ventures over coming the government red-tapism and classification of infrastructure. As far as location is concerned rural areas suffer more due to lack of infrastructure and acquiring of skilled manpower as compared to urban areas.

7.5 Credit

In Pakistan, the credit supply for industrial development at best is insufficient haphazard and in most cases unproductive. There are number of commercial banks and development finance institutions whose function is industrial loaning more or less over lap and they almost use the same criteria for sanctioning industrial loans. However, each institution works independently in a watertight compartment without any coordination at national level. Similarly there is no clear-cut distinction between a small investor and large investor.

7.6 Education

Education and industrialization have a very high correlation. All industrial countries have a very high rate of literacy. Therefore it is essential that great emphasis on education is provided if Pakistan wants to develop its industry. Education at grass root level both to males and females should be provided as conscious efforts should develop industry in the country. At the higher level there are very few institutions, which impart hardly any practical education to the potential businessmen and industrialists. The Institute of Business Administration and University of Management Sciences are doing commendable efforts but they still lack a practical approach to business education.

7.7 Training

Management is a very important aspect of entrepreneurial development. It extends over marketing, technical and financial aspects, which allows an entrepreneur to run an enterprise successfully. In Pakistan practical aspects of management are not thought at the College or University level. Very few institutions provide technical training at secondary level. At the local level there are institutions, which provide theoretical/practical training and award diplomas for such skills as welding, auto mechanic etc.

7.8 Sub-Contracting

Adam Smith in the 18th century said, “ A person should be assigned to do only that part of the work which he can undertake more efficiently”. This has been the basis of the emergence of sub-contracting throughout the world because it reduces cost of production, creates large employment opportunities particularly at the rural level and minimizes the need for vast infrastructure setup. Examples of successful sub-contracting exist in countries like Switzerland for watches, Germany for electronic/electric products and Japan for automobile industry. This aspect needs attention and promotion.

7.9 Acquisition and Transformation of Technology

It is extremely important for new entrants in business and industry to know the most appropriate and economical technology to be adopted in new ventures. Generally speaking, for large units it is acquisition of technology from abroad whereas for medium and small-scale industries it is development of technology at the local level.

7.10 Data Base Advisory Service

One of the greatest handicaps in developing entrepreneurship in Pakistan is the lack of correct and up to date statistical information and availability of free advisory service in identification of projects suitable to the specific needs of potential entrepreneurs. Investment Advisory Center of Pakistan has been working on these lines but its geographical coverage has been the main factors limiting its usefulness.

7.11 Role of the Government

The present Government realizes that involvement of private sector is essential for industrial development of the country. It has been reiterated time and again that the government does not want to run the industries but wants to restrict its role to providing necessary support services for the development of private sector in fulfilling the economic and social obligations. Under the bold policy initiatives adopted by the government all the room that was previously opened to government to install, operate and manage industrial units have been left open to the private sector. A massive programme of denationalization of state owned enterprises is under way. However lack of provision of desired infrastructure, non-provision of technology, training, education and finance are some of the impediments. Control and regulation and continued interference with entrepreneurial functions have become bottlenecks and thus affect the industrialization process.

7.12 High Cost of Energy

In Pakistan electricity cost is very high as compared to other developing countries. It results in high input cost and resultantly high price of products. These products lose market in the competitive environment of today. So new entrants do not take risk to establish factories.

7.13 Law and order

Safe and secure living environment is must for any country to attract foreign investment. In Pakistan the situation is worst. The foreigner investors are being abducted and killed. Under such environment who would risk his life for earning few dollars? Killing of Chinese working at Gawader Port and Gomal Zam Dam are recent examples of poor law and order situation in Pakistan.

7.14 SMEs

SMEs are backbone of any country's economic development. Unfortunately this sector has not been given due importance in Pakistan. Although SME Bank and Khushali Bank are there to provide loans for SME but the procedure of getting loan is so cumbersome that people do not ask loans from them.

7.15 Bureaucratic Hurdles

The local as well as foreign investors are hesitant to establish any industrial unit just for the reason of bureaucratic hurdles and unnecessary delays. An investor has to pass through unending procedures for approval of his project. The govt. machinery, instead of facilitating him rather tries to trap for their corrupt motives. In addition, the investor has to visit a number of departments/agencies to get green signal for his project. It causes unnecessary delays and brings dissatisfaction to the investor. India on the other hand facilitates the investors and has reduced the agencies to bare minimum. Infact they have started working on one window operation. Indian Industrial Policy is attached as Annexure B.

7.16 Corruption

Perhaps this menace has eaten up the entire economy of Pakistan. With devious planning, bank loans amounting to billions of Rs. were distributed to well connected individuals mostly working as false fronts to politicians and later written off. Sadly, personal interests have completely taken over the state interest. The uncountable govt. departments all the time are sitting on the heads of industrialists and are on the lookout to misuse their powers. This not only demoralizes the existing industrialists but also desist the new entrants in the sector.

7.17 Export vs. Import

Pakistan has always been suffering from trade imbalance I.e. our imports have been more than exports. The govts. Instead of promoting exports have been borrowing money from various donor agencies on very high rate of interest. It resulted in huge debt and Pakistan has to pay a mammoth amount in shape of debt servicing. Exports are termed as backbone of any country's economy. This aspect needs special attention at govt. level.

CHAPTER – EIGHT

SUMMARY OF RECOMMENDATIONS

8.1 Political Stability

Because of political instability the state got a jolt and Bangladesh was born in 1971. Bhutto, though got landslide victory in West Pakistan could not win the confidence of people and his corrupt practices resulted in Zia's Martial Law. After the death of Zia, four political governments ran the country but were unsuccessful and none could complete the tenure. The situation became worse resulted in yet another military rule. The judiciary of Pakistan is stuffed with personalities that do not inspire confidence among citizens and still less among investors willing to put their money in Pakistan. Civil servants learn to survive on serving their political masters and not the state. To do that, they have to participate in the national dance of death called corruption.

Today Pakistan is a country under nobody's control. It is a country where judiciary is unfair and has conflict with the executives. Executive is pitted against the bureaucracy. Infested with mindless pursuit of pretty self-interest and senseless in fighting the ruling elite of Pakistan has become disoriented and dysfunctional and the state of Pakistan is collapsing from within and under its own weight. The ruling elite has effectively lost control over all major economic and political processes. It is apparent that successive governments in the past fifty-seven years have failed to deliver fair, just and good governance to the people. Our repeated political experiment reveal that we need conceptual and structural changes and not cosmetic, adhoc and meaningless gestures. Unless such structural changes are not adopted Pakistan will remain politically unstable.

During late eighties and nineties, Karachi, which is hub of economic activities, was badly hit by law and order situation. Daily explosions in the city resulted in the closure of a number of industrial units and the investors lost interest in the city. Like wise other major cities also suffered because of religious disputes. The foreigners working in the country were abducted and in certain cases like Chinese working at Gawadar Port were killed. This all created an

atmosphere where in the local as well as foreign investors desisted from investment. This resulted in closure of existing units and non-emergence of new industrial units. Likewise the stock exchange business also suffered a lot because of unrest in the country. In late 1990's the market capitalization was just \$8 billions, which is now over \$30 billions because of improved law and order situation. Following are recommended in this regard

- Ban on religious militant groups
- Ban on ethnic groups
- Police commissionerate system be introduced which should be free from political influence
- Honest and well reputed judges be appointed on regular basis and not on adhoc basis
- Strongest legislation be passed to deal with the terrorist

Following are some of the fundamental changes, which are considered most important; -

- The root cause of all decay, may it be political, economical or social is our antiquated and cruel feudal system. It is inhuman, despotic and cruel. On dint of this system, 2 % feudal have confiscated the basic rights of 98 % masses. With absolute concentration of wealth, and cyclic monopoly on politics, masses feel enslaved and a second rate citizen in their own country. Nothing will progress till this system stays, therefore it must be wiped out. The only option to do so is to affix the land ceiling at 12.5 acres per family and to impose it ruthlessly.
- Our institutions have been degraded and are based on artificiality. They are fake, and impotent. To enforce checks and balances national institutions like judiciary, administration, and public services must be made independent. This most probably is the only way to execute accountability and to redeem our identity.
- Massive corruption has created a gulf between masses, splitting them into two vivid groups of ultra rich and ultra poor. The ultra rich

does not identify them with Pakistan and feel happy when the country is in crisis. This is the worst that can happen to society. Before further degradation, we must enforce a merciless accountability, deliver justice in time and make merit the cardinal principle.

- Political parties be asked to submit annual financial statements and hold regular elections on bi-yearly basis.

8.2 Role of Government/Policies

The government should act as a catalyst in promoting conducive climate in the field of technology, training, and education and promote private sector through various policy devices available with the government in terms of fiscal, monetary, import and export policy instruments so that this vital sector is able to play its role in keeping with the national needs. The regulatory framework should provide an overall environment conducive to the growth of an agile and vibrant entrepreneurship in the country.

There should be minimum of controls and regulations in respect of either the establishment of industrial units or their running so that the enterprise grows with minimum interference from the government. The recent policy shift of the government should be vigorously pursued in future in order to promote healthy growth in entrepreneurship. The government should take steps for avoiding unnecessary meddling in the affairs of enterprises as these tend to be highly counter productive.

Confidence building measures by Government are needed to create favorable investment climate. A set of incentives based on an attractive rate of return on capital should be designed in order to attract private investment in development of private industrial estates. The resultant growth of business ventures will also help in the development of infrastructural support and promotion of an industrial culture so vital for sustained economic strides.

Government obligations for providing the necessary facilities in the Small Industrial Estates viz electricity, natural gas telephone lines and roads must be fulfilled and for this purpose the institutional framework must be reviewed and strengthened.

Applicability of fiscal incentives presently extended to backward areas by and large appears to have had little functional impact. Area of applicability and period of tax holiday should be reviewed. Such incentives should also be evaluated in their economic bearings.

There should be proper briefing and orientation of potential entrepreneurs in an organized manner on location of industries in remote and backward areas. Such an effort should include detailed studies at the Government's initiative to identify advantages and positive factors in specific locations for specified industries, which should be made available to interested entrepreneurs.

There should be Government's association in regard to industry specific and amount-specific credit on soft terms (deferred payment concessional rates of interest) for investment in rural and backward areas. SME Bank, PICIC and commercial banks be asked to mobilize their resources for loaning to the existing and new entrants in industrial sector.

Location of export-oriented industries must be allowed to remain essentially an entrepreneurial decision even if this results in concentration rather than dispersal of industries. The important social and political goals of reducing regional disparities must be accommodated by following a policy of dispersal in case of Import substitution industries, engineering, electronics and hi-tech industries and the whole range of small scale industries, sub-contracting industries and industries playing the role of collaboration between small and large scale industries.

The commercial viability of the development of new and indigenous technologies must be explored so that new entrepreneurs adopt it in the best interest of developing new business.

The economic development of every country of the world is conditioned by the quality and size of its population. In the context of Pakistan the challenges of industrial growth will persist with elusive postures unless the question of high population growth is addressed with effective measures and the quality of its population is genuinely improved through a high literacy rate.

8.3 Good Governance

An essential factor in encouraging entrepreneurship is to provide conducive law and order situation so that peace and tranquility prevail to allow new industrial units to be set up and the old ones to grow unhindered. Political uncertainties and social disorder were major impediments in the process of industrial growth.

An essential element of good governance, decentralization, is pre-requisite for a vibrant and stable government. Elections of local bodies is positive step towards good governance. In order to further strengthening the concept of decentralization and to address the provincialism/creation of new provinces like Siraiki Province and Potohar Province, it is recommended that each administrative division be made province and governor appointed to run the affairs in more effective manner. The same concept is being followed in Afghanistan. Although the expenditure will be increased but the results of good governance will be far reaching. It will not only curb the ethnicity but will also provide platform for effective control of small provinces. Good governance will ultimately attract local and foreign investors to establish industries.

8.4 Infrastructure Development

A perspective plan for infrastructure development should be formulated in tandem with the country's Economic Perspective Plan (1998-2005) with short term and long term targets. The central region of the country from Gilgit to Gwadar (alongside right bank of Indus) should be brought under greater policy focus because it is the most backward area of the country. Priority already assigned to upgradation of Karakoram Highway, construction of Indus Highway, development of Gwadar Port, may be pursued vigorously and funds made available for completion of projects in time. Dry ports have proved to be excellent tools for facilitation of country's international trade and industry. Therefore establishment of dry ports and allied facilities such as foreign post offices etc must be treated an essential infrastructure.

Government should provide maximum infrastructural support such as electricity, gas, water, road and telecommunications etc. No doubt private sector

can be involved in providing infrastructure facilities but the onus rests upon the government for this purpose. Promotion of one window operation will encourage and enhance the pace of industrialization. This is also evident from the experiences of countries like Korea, Thailand, Malaysia, Singapore and Indonesia who in recent times have leapt past the shackles of underdevelopment and within a few years stood up as model nations in growth ratings and economic achievements.

8.5 Research and Development

It is impossible to have respectable status or even to survive in present day world without adequate emphasis and achievements in field of science and technology. Science and technologies have transformed the destinies of nations and placed them ahead of other nations even though such nations were lacking in resources. Example of England in the past and Japan and Germany more recently should leave no doubt. To the contrary, In Pakistan unfortunately adequate attention has not been paid to this vital field in the past. There was virtually no research in private enterprises as industrialists were more interested in their quick profits than genuine scientific research, which yield dividends over a long period of time. We have no dearth of talent but properly motivation and coordination have definitely been lacking in the past. The infrastructure equipment and other facilities of research institutions have to be improved. Also in view of not so good experience of the past, self-financing concepts for R&D bodies be practiced to discourage bureaucratic sloth and indifference. Attractive pecuniary rewards should be instituted for development of applied technologies such as microelectronics, biotechnologies, lasers, computers, renewable energy resources, fiber optics, nuclear and space technologies. Attractive incentives should also be provided to private R&D bodies or private industrial houses that show good scientific results to develop new products, reduce cost increase productivity, process gains etc. A body at highest level comprising scientists of highest caliber be formed not only to monitor, coordinate such activities but also to take decision regarding proper recognition of the work of individual or organization and take decision for award. Science and technology in all fields can

indeed be our greatest asset and tool to plenty and prosperity and can alone assure our progress in all fields including agricultural, industrial and even viable tertiary sectors.

8.6 EDUCATION – HUMAN RESOURCE DEVELOPMENT

Our education standards are falling. Teacher student relationship is worsening. Discipline is vanishing and cheating in examination and getting degrees by fraudulent methods is growing. In Pakistan literacy rate is 37%, which is much below those of India (48%). Sri Lanka (88%) and even Bangladesh. However a more unfortunate aspect of it is that most of the educated persons either do not possess enough knowledge to be properly characterized as educated or do not possess proper knowledge to be economically useful to the society. Urgent measures are needed to ensure 100% enrollment of all male and female students by early years of 21st century and to improve the quality of higher education. Scientific and technical education pertaining to both agricultural and industrial fields including applied engineering and the practical applications thereof in school laboratories designing financial accounting management should get special emphasis. Level of teaching skills should also be raised to enable teacher disseminate more knowledge and impart more information and skills amongst their pupils. The teaching profession is raised to highest level of respect in the society to attract more talent. Good education is the most important tool to attain the desired national, economic, social and political aims. It can inculcate good behavior and manners solving many of our present day problems and promote national cohesiveness and unity.

According to World Bank two third of a nation's wealth is its human resources. Japan spends 14% of its GDP towards human resource development, Israel 80% and Pakistan only 0.2%. Most probably our feudal dominated society is the biggest hurdle in its inter alia development and the net result is bare minimum contribution towards economy from this important source.

The goal of human resource development can be translated into the following main objectives:-

- Provide general education to maximize the literacy rate.
- Increase the scale of higher level education to generate a large pool of leaders, scientists, specialists and experts for all walks of life.
- **Education Strategy.** The future education strategy needs to be three pronged, it should aim to alleviate illiteracy, modernize and expand the higher education system and enhance technical and vocational training. The strategy should be as follows:-
 - **Illiteracy Alleviation**
 - The goal of compulsory primary education should be pursued actively.
 - Primary education should be provided through a public participatory programme. Responsibility should be given to the local governments who should also be held accountable for not achieving this goal.
 - Investment in this area should be increased substantially, the number of teachers as well as schools should be increased. The teacher's status should be made respectable by giving them higher salaries.
 - Incentives may be given to encourage people for completing the primary education. This may be in the form of recognition or some other types of benefits such as:-
 - ❖ Free higher education on better performance.
 - ❖ Meals served in the schools.
 - ❖ Free books and uniforms for girls.

- **Higher Education**
 - Efforts should be made to significantly increase the participation of 17-23 years age group in higher education.
 - The system should be modernized and the curriculum should be brought at par with international standards.
 - The private sector should be encouraged to increase participation in the higher education system.
 - The education in universities should be oriented towards technical and applied knowledge. Courses of general education in the subjects like liberal arts etc should be reduced and the trend of purpose-less education should be curtailed as far as possible.
 - The technical institutions should be closely linked with industrial units. The institutions should become a source of manpower supply for the industry.
 - Accurate forecast of manpower requirements of various sectors should be generated by the government and the output of higher institutions should be planned accordingly.
- **Vocational and Technical Education.**
 - The vocational and technical education should be made an attractive option for the young generation. In order to achieve this objective the following improvements may be incorporated:-
 - ❖ The vocational education qualifications may be blended appropriately with the standard educational curriculum.

- ❖ The quality of vocational education may be improved so that the skills imparted through this education enable an individual to seek a job easily.
- ❖ Establishing more institutes in the rural areas should increase the accessibility of rural population to vocational institutions.
- ❖ The vocational institutes should be integrated with the industrial system.

8.7 Electricity

Electricity is now the basic requirement of humans and it is no exaggeration to assert that it now constitutes the base of the whole modern civilization. The cost of electricity is very high comparing India, < Rs.2 and China free for the industry. Expensive electric power is to add to cost of goods manufactured. Pakistan has enormous potential for hydroelectric power generation, which is estimated at 26100 MW in addition to present generation from this source. It is very cheap and poses no environmental dangers. Also the water stored in the dams constructed for the purpose can be used for many more purposes. Kalabagh (3600 MW) and Basha (3300 MW) on Indus are two major projects. Kalabagh is a politically controversial project. However its design can be appropriately amended to allay the fears of people of NWFP regarding submerging of some of the vital areas of the province. Fears of Sindh about the reduced water supply can also be allayed through fair and guaranteed water quotas.

We have to concentrate more and more on clean, cheap, inexpensive and indigenous sources of electrical energy to meet increasing demands of industrial, agricultural, commercial and household consumers. There has been 370% increase in energy tariff since 1988 for industries adding to cost of production and causing inflation. Costs escalations due to interruption in supply were in addition to this. We must work hard to raise our electric generation capacity to 60,000 MW within the next 15 years or so and 2/3 rd of it should come from hydel or nuclear sources to somewhat balance the high cost of thermal power and

make this vital commodity available to users of all sorts at reasonable price. For thermal power generation also we must consider our own coal (vast coal reserves at Thar Sindh), gas and other fossilized material so that our already adverse balance of payment or foreign reserve position does not get further worsened.

8.8 Strategy for Promotion Foreign Trade

Govt. must take all possible steps to promote exports. Pakistan has a huge market for Textile, leather and rice in Europe and America, which should be fully exploited by the govt. as well as private entrepreneur. Govt. announcement to establish Textile cities in Karachi and Faisalabad is a welcome step.

As in many other areas of policy there is a growing consensus on trade development as a strategic objective. There is a need for a broad based and longer term approach to export development which gives adequate attention to investment in human skill and does not perpetuate the present weaknesses of the export structure by emphasizing short term gains. Improvement in the structure of exports should be given as high a priority as the overall expansion in export. Following in this regard is recommended:-

- Lay the basis of strong development of skill intensive industries such as electronics and knowledge based industries such as information processing.
- The adhoc changes in the export policy such as ban on restriction on exports if more favourable market conditions abroad for a commodity lead to domestic price increases or shortages should not be allowed.
- Efforts to expose domestic industry to more competition by .lowering tariff protection should continue because if easy profits can continue to be made in the domestic market the drive for export will suffer.

- Promotion of foreign investment for exports in technology-based industries where Pakistan has lagged needs to be aggressively pursued. A targeted approach in terms of industries and countries of origin may be more beneficial.
- Countries which are facing problem of rising wages and are interested in establishing production bases abroad should be encouraged through attractive incentives to help increase export.
- Export promotion Bureau should be replaced by an Export Development Authority (EDA) under the chairmanship of commerce minister. The executive chairman of the EDA should be from the private sector and EDA should have representatives from the private and public sector so that realistic trade policies are formulated through the involvement of stakeholders and implemented immediately.
- Availability of export refinance at competitive markup rates is considered a major tool for achieving growth of exports. There is a need to have export import bank EXIM which could deal exclusively with finances related to export of capital goods and other manufactured items, consultancy and technological services involving deffered payment terms. This bank should offer wide range of services to include:-
 - Pre and post shipment export financing.
 - Investment financing for export oriented units.
 - Investment financing for joint ventures abroad.
 - Financing for export marketing and development activities.
 - Offering loans to importer and financial institutions.
 - Bulk import financing to finance bulk import of export inputs.

- In order to make Pakistani exports more competitive excise surcharge and additional surcharge being levied on consumption of electricity should be built in the duty drawbacks currently available to exporters.
- Large expenditures that Pakistan incurs on the foreign missions and does not get much value in return manpower in these embassies should focus their attention on financial issues and spend their energies in expanding bilateral trade and attracting investment in Pakistan.
- The overall thrust of all manufacturing sectors should be towards “value-addition” of manufactured goods which necessitates better quality control and development of high skill levels amongst the workers.
- The industrial development should be oriented towards export promotion instead of import substitution.
- Capital industry should be developed to achieve machine manufacturing capability within the country in order to improve the quality of production and to achieve self-reliance.
- The government should make extra efforts to undo the quota restrictions placed by the importing countries.
- The opportunity of software export must be fully exploited. The government as a policy should encourage development in the area. It should assist in building training institutions and software houses in the country and help to maximize the export opportunities.

8.9 Industrial estates

Industrial estates should be established only in those areas which have attained sufficient 'absorptive capacity' in terms of a minimum requisite threshold of physical infrastructure, social overhead capital, entrepreneurship, craftsmanship and social norms conducive to industrialization. The past experience of success of ordinary industrial estates in developed areas such as Karachi, Lahore and Sialkot and failure in backward areas of Badin, Sanghar and Uthal necessitates that the development phase of an area should be carefully ascertained before launching an industrial estate project. The size and location of an estate should be determined on the basis of a careful survey of the nature, extent and structure of industrial potential of a target area. For an example:

If an estate is envisaged for a village, a small business estate comprising an area of one or two acres with a maximum of twenty five plots of ten marla to one kanal would be a suitable size to house the micro-business of the village artisans and shop keepers. The allotment should be confined to the artisans of the same village as aliens are deeply resented in rural society.

If an estate is envisaged for a small town like Daska, a five acre micro and cottage industrial estate with plot size from five marla to one Kanal may be more suitable. Its location should not be beyond walking distance from the downtown. Moreover, certain commitments and securities must be obtained from the potential investors before launching such a project. No such project should be launched where potential for occupancy is less than fifty percent. The government must obtain guarantee of estate sanctioning officer or the estate demanding politician that in case of failure to achieve the minimum threshold of colonization, the officer or the politician will be personally held responsible for the failure and the expenditure involved in the estate will be recoverable with penalties from the officer or the politician as the case may be, as arrears of land revenue.

If an estate is proposed for a developed area, it should be ensured that it does not exhaust the 'carrying capacity' of the city. Otherwise it would create costly problems of urban management as has happened in Lahore and Karachi, and thus it would be counterproductive.

The present govt. is doing a lot for development of industry. Recent announcement of establishment of industrial estates in Faisalabad, Multan and Karachi is a positive step by the present govt.

8.10 Enhance the Productivity of the Industrial Sector

The following recommendations are made to enhance the productivity of the industrial sector:-

- The industrial structure should be balanced by creating close links amongst the various tiers of industry i.e. capital large scale and small/medium industries. A strict policy should be imposed whereby the components and materials used in large-scale manufacturing units are produced within the country.
- The engineering goods industry should be expanded. Domestic manufacturing of these goods should be made profitable for the private entrepreneurs by reducing duties and taxes.
- The value addition of domestic products should be enhanced by:-
 - Educating the small businessmen
 - Encouraging the acquisition of high technology from abroad as well as through indigenous resources.
- Applying strict quality control measures to export products. Marketing of country's goods abroad should be enhanced through all possible measures. This should be undertaken as a national objective.

- The technical institutions should be closely linked with the industry to develop skillful manpower for expansion of this sector. Field training should be made a compulsory part of the education curriculum.
- As a policy, capital and heavy industry should be raised to reduce dependence on foreign sources import of turnkey plants should be avoided as far as possible.
- The small/medium industrial sector should be expanded to maximize productivity and employment potential. This may be achieved by:-
 - Reducing indirect taxes to increase the profitability of production.
 - Making business management education very common.
 - Introducing special credit schemes for the small entrepreneurs.
- The textile industry should be developed extensively with export orientation. Value addition of textile products and promotion of their export should be the main element of development strategy.
- In order to promote the defence industry the defence services should increase reliance on the local resources.
- Pharmaceutical sector is quite vibrant in Pakistan and can provide future growth opportunities if multinationals are encouraged to make Pakistan their productive hub for sales in the Central Asian and Middle Eastern markets. However to attract multinationals import tariff on medicines including their packing needs rationalization.

8.11 Miscellaneous

Following issues can be considered for industrial economic growth:-

- **Local Privatization.** Privatization by itself is no panacea for economic problems. Privatization must not be

undertaken as a prevalent fashion or global trend. We must first look into the complexities of privatizing a particular industry and then decide. After having taken the decision the selected industry/facility must not be politically motivated. First its market value be enhanced by taking corrective steps and then it should be sold through a transparent and open bidding process. Utilization of proceeds must also be done very judiciously. Government has undertaken privatization vigorously and chances to meet success are bright. The foreign investors have shown interest in PTCL, Power, Oil and Gas and Banks. However, it is recommended that privatization of PIA, Railways, KESC and other organizations which are running in loss may also be privatized. Privatization of services in Europe and East Asia had resulted in billions of dollars investment by the private sector.

- **Protecting Brain Drain.** The only logical way to stop brain drain is proper incentives for brilliance. Singapore is model for case study where policy makers/Government officials are paid the highest that stops corruption as well as promotes hard work.
- **Eliminating Corruption.** Easier said than done, the only way to control corruption is a stringent system of accountability. Affluent people must be made to prove the source of their wealth. As in Singapore If a person cannot account legally for the wealth he has amassed there is a presumption of corruption that he must disprove. To contrary, in Pakistan, burden of proof lies on the state. This faulty law encourages bribery nepotism and gratification practices which have ruined the country to the hit.
- **Smuggling.** Due to our porous border with Afghanistan and peculiar conditions total stoppage of smuggling may not be possible right away but selling of smuggled goods all over

the country markets (Peshawar to Karachi) can definitely be stopped. Stoppage of smuggling will give a new life to local industry.

SECTORIAL SHARE IN GDP

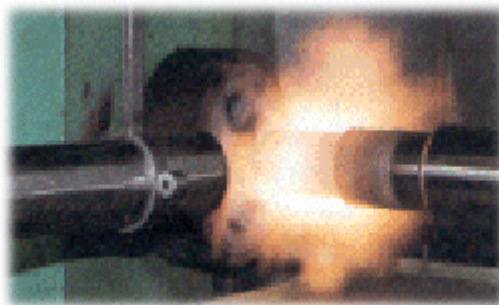
Year	Agriculture	Manufacturing
1949-50	5.3%	7.8%
1959-60	48.8%	12%
1964-65	39.6%	15%
1969-70	38.9%	16%
1976-77	34.4%	15.2%
1982-83	28.9%	18.3%
1991-92	38.9%	16%
1992-93	24.2%	18.3%
1999-00	26.2%	14.8%
2000-01	25.1%	15.9%
2001-02	24.4%	16.1%
2002-03	24.2%	16.4%
2003-04	23.3%	17.5%

Source:- Economic Survey 1993/94 and 2003-04

INDUSTRIAL POLICY OF INDIA

<p><u>1. INDUSTRIAL POLICY</u></p> <p>Procedure for <u>IEM/Industrial License/COB License</u></p>	<p><u>2. FOREIGN DIRECT INVESTMENT</u></p> <p>Procedure For <u>Automatic/Govt. (FIPB) Approval</u></p>	<p><u>3. INVESTMENT BY NON RESIDENT INDIANS OVERSEAS CORPORATE BODIES</u></p>
<p><u>4. FOREIGN TECHNOLOGY AGREEMENTS</u></p> <p>Procedure For <u>Automatic/Govt. Approval</u></p>	<p><u>5. 100% EXPORT ORIENTED UNITS/EXPORT PROCESSING ZONES</u></p> <p><u>Govt. Approval/foreign direct investment/NRI investment</u></p>	<p><u>6. ELECTRONIC HARDWARE TECHNOLOGY PARK AND SOFTWARE TECHNOLOGY PARK SCHEMES</u></p> <p><u>Procedure For Automatic/ Govt. Approval/ foreign direct investment/ NRI investment</u></p>
<p><u>7.-13. PROCEDURE</u></p>	<p><u>14-27. FACILITATION</u></p>	<p>Annexure <u>III III IV V VI</u></p>

1. INDUSTRIAL POLICY



<p><u>Industrial Licensing</u></p>	<p><u>IEM</u></p>	<p><u>Locational Policy</u></p>	<p><u>Policy Relating to Small Scale Undertakings</u></p>
<p><u>Environmental Clearances</u></p>			

The Government's liberalization and economic reforms programme aims at rapid and substantial economic growth, and integration with the global economy in a harmonized manner. The industrial policy reforms have reduced the industrial licensing requirements, removed restrictions on investment and expansion, and facilitated easy access to foreign technology and foreign direct investment.

Industrial Licensing

1.1 All industrial undertakings are exempt from obtaining an industrial license to manufacture, except for (i) industries reserved for the Public Sector (Annex I), (ii) industries retained under compulsory licensing (Annex II), (iii) items of manufacture reserved for the small scale sector and (iv) if the proposal attracts locational restriction. [For procedure to obtain Industrial License refer to para 7.2].

IEM

1.2 Industrial undertakings exempt from obtaining an industrial license are required to file an Industrial Entrepreneur Memoranda (IEM) in Part 'A' (as per prescribed format) with the Secretariat of Industrial Assistance (SIA), Department of Industrial Policy and Promotion, Government of India, and obtain an acknowledgement. No further approval is required. Immediately after commencement of commercial production, Part B of the IEM has to be filled in the prescribed format. The facility for amendment of existing IEM's has also been introduced. [For procedure to file IEM refer to para 7.1].

Locational Policy

1.3 Industrial undertakings are free to select the location of a project. In the case of cities with population of more than a million (as per the 1991 census), however, the proposed location should be at least 25 KM away from the Standard Urban Area limits of that city unless, it is to be located in an area designated as an "industrial area" before the 25th July, 1991. (List of cities with population of 1 million and above is given at Annexure - V). Electronics, Computer software and Printing (and any other industry which may be notified in future as "non polluting industry") are exempt from such locational restriction. Relaxation in the aforesaid locational restriction is possible if an industrial license is obtained as per the notified procedure.

1.4 The location of industrial units is further regulated by the local zoning and land use regulations as also the environmental regulations. Hence, even if the requirement of the locational policy stated in paragraph 1.3 is fulfilled, if the local zoning and land use regulations of a State Government, or the regulations of the Ministry of Environment do not

permit setting up of an industry at a location, the entrepreneur would be required to abide by that decision.

Policy Relating to Small Scale Undertakings

1.5 An industrial undertaking is defined as a small scale unit if the investment in fixed assets in plant and machinery does not exceed Rs 30 million. The Small Scale units can get registered with the Directorate of Industries/District Industries Centre in the State Government concerned. Such units can manufacture any item including those notified as exclusively reserved for manufacture in the small scale sector. Small scale units are also free from locational restrictions cited in paragraph 1.3 above. However, a small scale unit is not permitted more than 24 per cent equity in its paid up capital from any industrial undertaking either foreign or domestic.

1.6 Manufacture of items reserved for the small scale sector can also be taken up by non- small scale units, if they apply for and obtain an industrial license. In such cases, it is mandatory for the non-small scale unit to undertake an export obligation of 50 per cent . In addition, if the equity holding from another company (including foreign equity) exceeds 24 per cent, even if the investment in plant and machinery in the unit does not exceed Rs 30 million, the unit loses its small scale status. An IEM is required to be filed in such a case for de-licensed industries, and an industrial license is to be obtained in the case of items of manufacture covered under compulsory licensing.

1.7 A small scale unit manufacturing small scale reserved item(s), on exceeding the small scale investment ceiling in plant and machinery by virtue of natural growth, needs to apply for and obtain a Carry-on-Business (COB) License. No export obligation is fixed on the capacity for which the COB license is granted. However, if the unit expands its capacity for the small scale reserved item(s) further, it needs to apply for and obtain a separate industrial license. (For procedure to obtain COB license, refer to para 7.2(d)).

1.8 It is possible that a chemical or a by-product recoverable through pollution control measures is reserved for the small scale sector. With a view to adopting pollution control measures, Government have decided that an application needs to be made for grant of an Industrial License for such reserved items which would be considered for approval without necessarily imposing the mandatory export obligation.

Environmental Clearances

1.9 Entrepreneurs are required to obtain Statutory clearances relating to

Pollution Control and Environment for setting up an industrial project. A Notification (SO 60(E) dated 27.1.94) issued under The Environment Protection Act 1986 has listed 29 projects in respect of which environmental clearance needs to be obtained from the Ministry of Environment, Government of India. This list includes industries like petro-chemical complexes, petroleum refineries, cement, thermal power plants, bulk drugs, fertilizers, dyes, paper etc. However if investment is less than Rs. 500 million, such clearance is not necessary, unless it is for pesticides, bulk drugs and pharmaceuticals, asbestos and asbestos products, integrated paint complexes, mining projects, tourism projects of certain parameters, tarred roads in Himalayan areas, distilleries, dyes, foundries and electroplating industries. Further, any item reserved for the small scale sector with investment of less than Rs 10 million is also exempt from obtaining environmental clearance from the Central Government under the Notification. Powers have been delegated to the State Governments for grant of environmental clearance for certain categories of thermal power plants. Setting up industries in certain locations considered ecologically fragile (e.g. Aravalli Range, coastal areas, Doon valley, Dahanu, etc.) are guided by separate guidelines issued by the Ministry of Environment of the Government of India. [For procedure to obtain environmental clearance, refer to para 22.1].

FACILITATION

<p><u>INVESTMENT PROMOTION AND FACILITATION</u></p> <p><u>Foreign Investment Promotion Board (FIPB)</u></p>	<p><u>FOREIGN INVESTMENT PROMOTION COUNCIL (FIPC)</u></p>
<p><u>SECRETARIAT FOR INDUSTRIAL ASSISTANCE (SIA)</u></p> <p><u>SIA's Promotional Activities</u> <u>Entrepreneurial Assistance Unit (EAU) of the SIA</u> <u>Investment Promotion and Infrastructure Development (IP & ID) Cell</u> <u>Project Monitoring Wing</u></p>	<p><u>PUBLICATIONS</u></p> <p><u>SIA Newsletter</u> <u>SIA Statistics</u> <u>Other Publications</u></p>
<p><u>FOCUS WINDOWS</u></p>	<p><u>NODAL OFFICERS</u></p>
<p><u>SIA WEBSITE</u></p>	<p><u>SUBMISSION OF MONTHLY PRODUCTION RETURNS</u></p>
<p><u>PROCEDURE FOR OTHER</u></p>	<p><u>INFORMATION ON EXPORTS</u></p>

<u>ENVIRONMENTAL CLEARANCES</u>	<u>AND IMPORTS</u>
<u>EXTERNAL COMMERCIAL BORROWINGS</u>	<u>COMPANY REGISTRATION</u>
<u>GRIEVANCES AND COMPLAINTS</u>	<u>CITIZENS CHARTER</u>
<u>Business Ombudsperson Grievances Officer & Joint Secretary</u>	

14. INVESTMENT PROMOTION AND FACILITATION

14.1 Foreign Investment Promotion Board (FIPB)

The Government has revamped the FIPB and transferred it to the Industry Ministry. The FIPB is the nodal, single window agency for all matters relating to FDI as well as promoting investment into the country. It is chaired by Secretary, Industry (Department of Industrial Policy and Promotion). Its objective is to promote FDI into India:-

[i] by undertaking investment promotion activities in India and abroad,
 [ii] facilitating investment in the country by international companies, non-resident Indians and other foreign investors,
 [iii] through purposeful negotiation/discussion with potential investors,
 [iv] early clearance of proposals submitted to it, and
 [v] review policy and put in place appropriate institutional arrangements, transparent rules and procedures and guidelines for investment promotion and approvals.

14.2 After its revamping, the FIPB has played a proactive role in promoting and attracting FDI into the country and further facilitating expeditious clearance to the proposals submitted to it. The FIPB has also decided to monitor implementation of mega projects to further facilitate investment and remove bottlenecks and as part of this exercise, to get studies commissioned through professional bodies and undertake other promotional measures.

15. FOREIGN INVESTMENT PROMOTION COUNCIL (FIPC)

Apart from making the policy framework investor-friendly and transparent, promotional measures are also taken to attract Foreign Direct Investment into the country. The Government has constituted a Foreign Investment Promotion Council (FIPC) in the Ministry of Industry. This comprises professionals from Industry and Commerce. It has been set up to have a more target oriented approach toward Foreign Direct

Investment promotion. The basic function of the Council is to identify specific sectors/projects within the country that require Foreign Direct Investment and target specific regions/countries of the world for its mobilization.

16. SECRETARIAT FOR INDUSTRIAL ASSISTANCE (SIA)

16.1 SIA has been set up by the Government of India in the Department of Industrial Policy and Promotion in the Ministry of Industry to provide a single window for entrepreneurial assistance, investor facilitation, receiving and processing all applications which require Government approval, conveying Government decisions on applications filed, assisting entrepreneurs and investors in setting up projects, (including liaison with other organizations and State Governments) and in monitoring implementation of projects. It also notifies all Government Policy relating to investment and technology, and collects and publishes monthly production data for 213 select industry groups.

16.2 SIA's Promotional Activities

As an investor friendly agency, it provides information and assistance to Indian and foreign companies in setting up industry and making investments. It guides prospective entrepreneurs and disseminates information and data on a regular basis through its two monthly newsletters the "SIA Newsletter" and the "SIA Statistics" as also through its Web site address, i.e. <http://www.nic.in/indmin> . It also assists potential investors in finding joint venture partners and provides complete information on relevant policies and procedures, including those, which are specific to sectors and the State Governments.

16.3 Entrepreneurial Assistance Unit (EAU) of the SIA

The Entrepreneurial Assistance Unit functioning under the Secretariat for Industrial Assistance, Department of Industrial Policy and Promotion provides assistance to entrepreneurs on various subjects concerning investment decisions. The unit receives all papers/applications related to industrial approvals and immediately issues a computerized acknowledgement which also has an identity/reference number. All correspondence with the SIA should quote this number. In case of papers filed by post, the acknowledgement will be sent by post. The Unit extends this facility to all papers/applications relating to IEM's, Industrial Licenses, Foreign Investment, Foreign Technology Agreements, 100 per cent EOU's, EHTP, STP Schemes, etc.

16.4 The Unit also attends to enquiries from entrepreneurs relating to a wide range of subjects concerning investment decisions. It furnishes clarifications and arranges meetings with nodal officers in concerned Ministries/Organizations. The Unit also provides information regarding

the current status of applications filled for various industrial approvals.

16.5 Investment Promotion and Infrastructure Development (IP & ID) Cell

In order to give further impetus to facilitation and monitoring of investment, as well as for better co-ordination of infrastructural requirements for industry, a new cell called the "Investment Promotion and Infrastructure Development Cell" has been created. The functions of the Cell include:-

- [a] Dissemination of information about investment climate in India;
- [b] Investment facilitation;
- [c] Developing and distributing multimedia presentation material and other publications;
- [d] Organizing Symposiums, Seminars, etc. on investment promotion;
- [e] Liaison with State Governments regarding investment promotion;
- [f] Documentation of single window systems followed by various States;
- [g] Match-making service for investment promotion;
- [h] Co-ordination of progress of infrastructure sectors approved for investment/technology transfer, power, telecom, ports, roads, etc.;
- [i] Facilitating Industrial Model Town Projects, and Industrial Parks, etc.;
- [j] Promotion of Private Investment including Foreign Investment in the infrastructure sector;
- [k] Compilation of sectoral policies, strategies and guidelines of infrastructure sectors, both in India and abroad; and
- [l] Facilitating preparation of a perspective plan on infrastructure requirements for industry.

16.6 Project Monitoring Wing

With a view to monitoring the implementation of projects approved, and for facilitating solution to investor problems, a Project Monitoring Wing has been created within the IP & ID Cell. The functions of the Project Monitoring Wing are as follows:

- (i) Co-ordination with Central and State level Ministries/Departments concerned and related agencies for tracking and monitoring approved projects, and compilation and analyses such information;
- (ii) Direct contact, wherever necessary, with entrepreneurs and updation of the information on projects, and provision of necessary assistance.

17. NODAL OFFICERS

17.1 The Department of Industrial Policy and Promotion has identified officers at the Deputy Secretary/Director level as Nodal officers for facilitation of all matters relating to the industrial projects pertaining to a

State. For large projects involving sizeable amount of FDI, officers have been identified in the Department of Industrial Policy and Promotion and other departments concerned (e.g. the Ministry to which the investment proposal pertains) and the State Government to act as contact officers so that these projects can be implemented within the time schedule. The officers of the Project Monitoring Wing are in touch with the contact officers.

18. FOCUS WINDOWS

18.1 The Department of Industrial Policy and Promotion also has opened Country Focus Windows for countries with sizeable investment interest in India. At present, the Focus Window cover countries such as USA, Germany, France, Switzerland, Australia, Japan and Korea. For each focus window a senior officer in the Department provides facilitation and assistance.

19. PUBLICATIONS

19.1 SIA Newsletter

This is a monthly publication and covers information on data relating to Foreign Direct Investment, NRI investment, sectoral break-ups, country-wise break-up, all approvals accorded for Foreign Direct Investment, and NRI investment during the month, FDI inflows, and policy notifications issued during the month.

19.2 SIA Statistics

This is also a monthly publication which contains data relating to Industrial Licenses, approvals granted for setting up 100 per cent Export Oriented Units, details of approvals for Industrial Licenses, EOUs, Foreign Technical Collaboration etc., monthly data on industrial production of 213 select industry groups, as well as policy announcements by Government during the month.

19.3 Other Publications

These publications include this Manual as well as sector specific publications, such as on the Indian Automobile industry, Cement industry, Engineering industries, Leather industries, etc. A set of publications relating to the Infrastructure sector with specific volumes on Ports, Roads, Power, Telecom, and Railways is also published. Other publications include information on Current taxation and duty structure, Entry options for business in India, and the like.

All or any of these publications are available through the EAU of the SIA, the Investment Promotion and Infrastructure Development Cell, as also

Indian Missions abroad. These can also be down loaded from the SIA Web site.

20. SIA WEBSITE (<http://www.nic.in/indmin>)

20.1 The Home page of the SIA has been created with the intention to convey information relating to the investment climate in India and contains the aforesaid publications, State Industrial Policies, web site directory of organizations, forthcoming promotional events, projects as are on offer, details regarding availability of land/industrial sheds through State Government agencies, etc.

21. SUBMISSION OF MONTHLY PRODUCTION RETURNS

21.1 All industrial undertakings, whether exempt or not from compulsory industrial licensing, are statutorily required to submit a monthly production return in the proforma to the concerned technical authorities viz. Deputy Director (Statistics), Secretariat for Industrial Assistance (SIA), Department. of Industrial Policy and Promotion, Iron and Steel Controller; Coal Controller, Directorate of Sugar; Directorate of Vanaspati, Vegetable Oils and Fats and Textile Commissioner, as the case may be. A copy of the monthly production return should also be submitted to the concerned Administrative Ministry/Department.

21.2 In the case of small scale industrial undertakings, the monthly production return should be submitted to the appropriate State Government or Commissioner of Industries and to the Department of Small Scale and Agro & Rural Industries, Government of India along with a copy to the Small Industries Service Institute.

22. PROCEDURE FOR OTHER ENVIRONMENTAL CLEARENCES

22.1 Entrepreneurs are advised to approach Ministry of Environment and Forests, Paryavaran Bhavan, Phase II, CGO Complex, Lodhi Road, New Delhi- 110003.

23. INFORMATION ON EXPORTS AND IMPORTS

23.1 Exports and imports of plant machinery would be as per the existing Export-Import Policy in force. For any information or facilitation, entrepreneurs can contact the Directorate General of Foreign Trade (DGFT), Ministry of Commerce, Udyog Bhavan, New Delhi-110011.

24. EXTERNAL COMMERCIAL BORROWINGS

24.1 Applications may be submitted by the borrowers in the prescribed format to the Joint Secretary (ECB), Department of Economic Affairs, Ministry of Finance, North Block, New Delhi-110001. The policy and

procedures are contained in the guidelines issued by that Ministry and are available on the SIA web site.

25. COMPANY REGISTRATION

25.1 Information and details may be obtained from the Department of Company Affairs, Shastri Bhavan, New Delhi-110011 or the Registrar of Companies located in all State capitals.

26. GRIEVANCES AND COMPLAINTS

26.1 Business Ombudsperson

To facilitate expeditious redressed of grievances and attend to complaints relating to delays in grant and implementation of industrial approvals and facilitate their disposal, the Government has appointed a BUSINESS OMBUDSPERSON in the Ministry of Industry. Shri A.V. Singh, Additional Secretary & Financial Adviser, Ministry of Industry, Udyog Bhavan, New Delhi-110011 has been nominated to act as Business Ombudsperson.

26.2 Grievances Officer & Joint Secretary

Grievances and complaints are also received by the Grievances Office-cum-Joint Secretary, Department of Industrial Policy and Promotion, Ministry of Industry, Udyog Bhavan, New Delhi-110011, either through post or through the mail box in the EAU of the SIA and at Reception of the Ministry of Industry at Gate No. 13 of Udyog Bhavan, New Delhi-110011. Any such communication is handled expeditiously and steps are taken to redress the grievance.

27. CITIZENS CHARTER

27.1 The Department of Industrial Policy and Promotion has also got its own Citizens Charter which outlines general procedures and standards of performance expected from the Department.

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