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Report – Webinar

"Make in Pakistan: Pakistan's New Industrial Policy"

September 9, 2021

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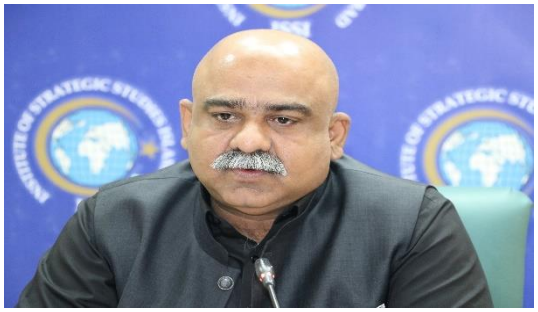
PICTURES OF THE EVENT



The Centre for Strategic Perspectives (CSP) at the Institute of Strategic Studies Islamabad (ISSI) organised a webinar titled "Make in Pakistan: Pakistan's New Industrial Policy," on September 9, 2021. Dr Salman Shah, Advisor to CM Punjab, was the keynote speaker on the occasion. Other speakers for the webinar included Mr Humayun Akhtar Khan, Chairman & CEO, Board of Institute for Policy Reforms, Dr Usman W. Chohan, Director for Economics & National Affairs at Centre for Aerospace & Security Studies (CASS) and Ms Nazish Afraz, Adjunct Faculty at the Department of Economics at the Lahore University of Management Sciences (LUMS). Malik Qasim Mustafa, Director CSP/ACDC at the ISSI, moderated the Talk.

Introductory Remarks by Malik Qasim Mustafa Director CSP/ACDC-ISSI

Malik Qasim Mustafa, Director CSP/ACDC, in his introductory remarks said that the contribution of the manufacturing sector in Pakistan's GDP has gradually declined. In 2005, the GDP share of the manufacturing sector was 17.5 per cent, which was reduced to 12.1 per cent in 2018. This decline has also reduced Pakistan's share in the world exports, whereas, over these years the share of exports of other countries increased tremendously.

Over the years multiple factors have contributed to this decline or induced de-industrialisation trend, for example, the inappropriate burden of taxes on industry, under-invoicing, poorly negotiated trade agreements, heavy input costs, increase imports and many other related factors have impacted the industry's ability to build and compete in the global market.

To slow and reverse this de-industrialisation process or trend, the government initiated a "Make in Pakistan" initiative industrial policy, which is aimed at creating jobs, increasing exports and imports substitution of both goods and services. Some of the key targets suggested under this initiative are to take the percentage contribution of manufacturing of GDP up to 25 per cent, manufacturing goods to represent over 85 per cent of exports for the current 77 per cent. The annual rate of growth of manufacturing to be 10 per cent plus against recent five to six par per annum and Pakistan's share of export to the world to grow from 0.13 per cent to 0.2 per cent that is around US$40 billion.

In 2020, Prime Minister Imran Khan declared that the government was vigorously pursuing the Make in Pakistan policy to promote export-oriented industrialisation in the country. Recently in August 2021, Mr Razak Dawud stated that Make in Pakistan is the government's top policy and because of tariff nationalisation, the industrialisation process in the country is accelerating. The government has also fixed the target for the country's total export at US$38.7 billion during the current fiscal year and it is expected that Pakistan's export would reach up to US$50 billion by the year 2023.

Welcome Remarks by Ambassador Aizaz Ahmad Chaudhry, DG ISSI

In his welcome remarks, Ambassador Aizaz Ahmad Chaudhry, Director General ISSI, said that the topic of the webinar is very close to every Pakistani and it impacts their lives also. Pakistan adhered to the WTO conditionalities of reducing tariffs on its countries while countries in the West did not comply with this and gave protection to some of their vulnerable sectors of the economy especially agriculture, by giving them subsidies. The import substitution policy was looked down upon in the country and the result was that Pakistan became a trading nation in raw materials only and industry started to dwindle. The FTAs Pakistan signed especially the one with China in 2006, greatly impacted the industrial sector of the company as it was not capable of producing anything substantive. The new industrial policy is a good initiative, as it will help to revive the industry in the country. If the industry is revived in the country, it will not only help to boost the exports but also create job opportunities for the people. There are some obstacles also in implementing this policy, one is the attitude of people towards big industrialists, they are seen in a negative light, and they are not provided support by the government departments. The second is the lack of supporting infrastructure from the government side to help the setup of industry and its subsequent growth. The SEZs need special attention as their setup has lagged and the transfer of industry from China did not take place and it went to other countries in the region. Agriculture based industry needs protection. The third obstacle is the lack of proper regulation in the country as without it there is an increase in exploitation and corruption.

Keynote Address by Dr Salman Shah, Advisor to CM Punjab

Dr Salman Shah, Advisor to CM Punjab, was the keynote speaker. He said that the topic of the webinar is quite topical and if one looks at the federal government's industrial policy, which is

Make in Pakistan, has a very broad canvas. The policy of protectionism of producing everything inside the country, making a self-sufficient economy will lead Pakistan towards isolation in the global economy, and therefore it is not feasible. The demography of Pakistan makes it possible for the country to become a global production hub. This production hub will include the agriculture sector, the manufacturing sector, the industrial sector and the services sector.

Pakistan has the fifth biggest population in the world, the working-age population is the sixth biggest but the labour force comes at the eleventh number in the world meaning that the working-age population is not being fully utilised in terms of production, economic activity and gender inequality plays a big role in it. Pakistan is a big country and in the last forty years, it has been embroiled in many conflicts and security challenges like Afghanistan and the War on Terror. The developments in East Asia, Bangladesh and China bypassed Pakistan. So now, Pakistan is in a situation if Afghanistan moves towards some sort of stability the government can shift its focus from addressing security challenges and move towards making the country factory of the world like Japan, Korea, Malaysia, Vietnam, China and Bangladesh. Each of these countries had the advantage of low-cost labour and they made improvements to this labour force to make it have a competitive advantage in the global markets.

Pakistan has the advantage that it has a big domestic market but it needs to keep global markets in its aims and if Pakistan must catch up export, orientation is necessary. Secondly in the constitution of Pakistan the parts that apply to the country becoming a factory of the world, to become the source of production, the investment it requires has been passed on to the provinces after the 18th Amendment. The province has become an important factor in leading the economy.

In Punjab, there are amazing opportunities and the focus of the provincial government is to make it a factory of the world. The economy of Punjab consisting of agriculture, manufacturing, services, mining, with a focus on market economy, the economy has been divided into two spheres urban economy and rural economy. Pakistan is one of the fastest urbanising countries in the world where people are moving from rural areas to urban centres and the 36 districts of Punjab at least 36 cities can become manufacturing hubs and there is a lot of potential in other provinces as well. Pakistan due to its geo-location has made it possible for the provinces to

participate in this endeavour to become the next factory of the world because there are many regional opportunities. In addition, as the country becomes more integrated globally more regions like Africa, Middle East, Europe, and the Americas will become available markets for the provinces.

In the urban economy of Pakistan, cities will be the engines of growth and clusters around cities are emerging like in Rawalpindi clusters of heavy engineering are developing around it and in Northern areas, tourism. This system of cities in Punjab is moving towards clusters, which include industrial zones, industrial corridors, SEZs and different value chains. Gujranwala division can be seen as an example of the economic measures, which must be taken in the nine divisions of Punjab, each division has strategic importance. It has its products. It has its competitive advantage and that must be exploited fully. The challenge to the Make in Pakistan policy is the need to bring in local administration on board. If the federal government has made laws on trade, duty structures, taxes are important steps but its implementation at the province level, the local administration gets involved and many obstacles discourage the investor from working. The ease of doing business thus requires attention, which specifically includes value chains to become about deregulation. The cost of doing business also needs to be reduced because to become the factory of the world, manufacturing hub of the world and for Make in Pakistan policy to succeed as the government does not want to become the fortress of the world it has to become the factory of the world. To reduce the cost of doing business some factors need addressing, one of them is energy and if it is not fixed the country cannot have a competitive advantage in exports.

In Punjab, there is no fossil fuel energy, the main fuel is solar, and the Government of Punjab is trying to establish in each manufacturing city of Punjab solar plants to provide cheap energy. The issue is in acquiring land for its setup, which is expensive, so canal top solarisation is being worked on and as these canals pass through population centres, microgrids will be used to give bulk to the consumers. Gujranwala division is the first where this being done where there are 6 district headquarters out of which 3 are manufacturing hubs the Gujrat, Sialkot, Gujranwala triangle, which also has many value chains, surgical, electronics, mechanical engineering products and these are being expanded. In addition, there is great potential for value-added agriculture. The GT Road also acts as a service road with markets along with it, many

construction activities taking place, many service jobs. The government of Punjab has a 10 point plate which includes a focus on all value chains, the knowledge of each value chain needs to be developed, each value chain infrastructure needs to be developed, each value chain needs to be provided connectivity, mobility to reach domestic and global markets, the cities need to be given the status of competitive cities meaning cities for economic activity and have measures which are important for the industry like space, location, access to inputs, specialised infrastructure like testing laboratories, certifications programmes, all of these form a comprehensive plan for all divisions.

The next step in the Gujranwala division, for example, where there are Rs190 billion worth of annual PSDP projects, but the allocation is only 10 per cent per annum so the investment is low overall, which needs to be increased. To increase this for every dollar of public sector expenditure at least 2 dollars should come from the public-private partnership and private sector because of these interventions private sector should invest 4 dollars for uplifting the capabilities. Based on Rs200 billion PSDP overall up to Rs800 billion will be raised to bring competitiveness and to develop infrastructure. The challenge is how to implement this system. The PM every month reviews the progress under him is the committee of Chief Secretary and all departments are online and under him in the office of Commissioner Gujranwala implementation unit has been formed to look at all value chains. The big agriculture product value chains, services value chains and manufacturing value chains in Gujranwala need to be expanded. But these things will not happen overnight and if you want to become the production hub and you are catching up the only way can do it is if there are proper federal laws that are conducive to promote economic activity and private sector investment is a must, foreign investment, domestic investment and provide Pakistan as a base where investment can be done and then supply the entire region.

China has a big market where Pakistan needs to make inroads. China has a higher wage rate than Pakistan almost 10 times more while Pakistan labour is cheap but it is not productive. What you need is a lot of knowledge, a lot of investment. If Chinese companies invest in the CPEC, which will lead to a lot of shifting of industry because looking at Chinese demographics they are going to lose about 200 million by 2050 in the working-age and in this period, the working-age of the Pakistani population will increase by 100 million. Therefore, it is a natural strategic fit that from the manufacturing shift taking place in China, Pakistan should play a major role and try to get as

much as possible. To date, this type of Chinese investment has not taken place in Pakistan as is taking place in Vietnam, Cambodia and Bangladesh. One of the reasons is the security perception and secondly due to the bottlenecks created by the Pakistani laws and bureaucracy. The focus of the Make in Pakistan should be that Pakistan is the most productive and competitive place to do business, scale is very big, location wise Pakistan is in a very good situation, it is the fastest urbanising country in the world so that gives us an advantage in at least in the urban economy, IT skills shortage can be overcome by the focus on KBE. This development process, which is the knowledge economy, the production economy, the marketing economy, the logistics economy, needs work and then Make in Pakistan makes sense. Make in Pakistan would make sense for a Japanese investor it would make sense for a Chinese investor it would make sense for an American investor.

If the old model is followed which involves protectionism, then it has many limitations, which are that you will not be able to work globally. Secondly, the quality improvement, competitiveness will not be there and the economy will become a rental economy, which may have a limited growth prospect, but it is not sustainable for a country of the size of Pakistan. Till 2050 Pakistan will have a population of around 400 million and such a big population if it needs to grow and develop will need an economy of US$4-5 trillion and that economy cannot be formed based on domestic markets only. That economy will come by participating in the global economy and that means that Pakistan needs many of all sizes. Moreover, in Pakistan, there are very few big entrepreneurs because they are not looked at favourably in the country. The objective is to develop all of them and make them reach the global scale and Make in Pakistan is something which needs to be owned by every Pakistani and the ultimate aim of Pakistan should be to become the hub of manufacturing, production of the region at least if not the world.

Remarks by Mr Humayun Akhtar Khan, Chairman & CEO IPR

Mr Humayun Akhtar Khan, Chairman & CEO, Board of Institute for Policy Reforms, thanked the ISSI for organising a discussion on a subject that should have a high priority in Pakistan's policy space. Despite claims to the contrary, our present approach to policymaking gives a very low priority to boosting investment, manufacturing, industrial growth and exports. He shared the following points:

1. Macro fundamentals have stayed very weak, which discourages investment and industrial growth:

   - In the last 20 years, there has not been a single year without a budget deficit, 19 of those Pakistan had a revenue deficit,[1] so there is no money left with the government to properly support businesses with infrastructure or human capital.

   - In the last 20 years, Pakistan has had three years of current account surplus, two of those during the post 9/11 aid flows. Where will Forex for import of plant and machinery come from?

   - In the last 20 years, the Rupee has fallen by almost three-fold, or about 300%. How can businesses plan their investment?

   - In the last 20 years, our foreign debt has grown over three times. In 20 years, we have paid an average of $ 1.4B annually as interest, $ 2.3 B annually in the last 5 years, much more than what the IMF loans us.

2. Post 9/11, Pakistan received tens of billions of dollars in grant and concessional aid flow, oil on deferred payment and debt rescheduling. Despite receiving massive capital, in 2008 we were back with the IMF and had to devalue the Rupee by 40 per cent. In 2015-2017, Pakistan received the CPEC funds but went back to the IMF and faced devaluation in 2018-19. This is because we did not invest the large capital inflows into manufacturing for export. The economy stayed vulnerable and despite the enviable amounts of inflow of foreign capital that few other countries have received, Pakistan is now a laggard economy in the region.

3. The share of productive sectors in GDP, agriculture and manufacturing, is on the decline. No surprise because the investment to GDP ratio has fallen from about 20 per cent of GDP in the 1990s to 15% last year. Manufacturing investment has been low. It was 1.5 per cent of GDP last year. The export/GDP ratio, which was at 17 per cent in the 1990s, is now at 9 per cent. Pakistan's export products are the same as they were thirty years

[1] Revenue is not sufficient to even meet revenue expenditure (because of interest expense)

ago, low value-added, low technology and off-and-on dependent on subsidies from the government. For years, textile and apparel have been 55-60 per cent of total exports. In the last two decades, most investment has been in private power, autos, finance, telecom and recently in construction. The first two with very high subsidies or protection. While all these investments support production, so far, they have yet to translate into exports.

4. No wonder that Pakistan's economy is always close to default. The country does not invest enough in manufacturing, so we do not produce enough, and our exports are stagnant.

5. In 1960, South Korea's GDP per capita was 3 times more than Pakistan. In 2021, its GDP/capita is 21 times of Pakistan. During this period, Pakistan's per capita income grew 4.8 times, while South Korea's income grew 29 times. In 2021, Bangladesh GDP/capita is 36% more than that of Pakistan.

The lesson for Pakistan is that it cannot solve macro-economic problems with macro-economic policies. It needs a change in approach that prioritises savings, investment, production and exports to solve macro-economic problems.

For all economies that have progressed, manufacturing has been the engine of growth because manufacturing creates demands for all sectors. In addition, productivity improves rapidly in manufacturing. That is why the terms industrial economies and developed economies are almost used interchangeably.

Mr Khan's second part of the discussion dealt with issues and ideas to develop a conceptual framework applicable to Pakistan. Industrial policy means different things to different people. It became a concept after it was successfully practised in East Asia. In development economics, it does not mean general policies in support of the business. It means supporting businesses at three levels:

i. Providing a business climate through infrastructure, human capital, especially education and training, legal framework and facilitative governance, i.e., by correcting market failures (government to provide those services that the private sector does not. All

economists agree on this.).

ii. Offering subsidies and incentives, including credit at preferential rates and trade protection for the new technology industry, support with R&D.

iii. And at the third level, which is the definition of industrial policy as practised in East Asia, it includes some very intrusive management of industry with close cooperation of the private sector. They include coordinating complementary investments, to reduce investor uncertainty. In addition, to ensure that there is competition in each targeted industrial sector, especially when provided incentives and protection, yet not so much that the sector is chaotic.

Government must also encourage scale economies. It must also regulate technology imports to screen out obsolete technologies and to get a good cost by having one organisation import technology. Contrary to IFI advice, Pakistan must regulate foreign direct investment for entry and ownership restrictions, local contents requirements, technology transfer requirements and export requirements. The private sector must change its approach from merely expecting support (which we must offer strategically) to adding value to production. For example, mandatory worker training and their role in R&D. Other areas where the government can help are foreign exchange allocations for target industry, export promotion (happening already) and incubating new technologies.

Of course, Pakistan is not able to entirely duplicate the above policies:

- Years of dealing with IFIs has instilled in Pakistani officials a (false) belief about the wisdom of markets, even though there is no evidence of its rewards on-ground. Such IFI pearls of wisdom have gifted us questionable policies such as private power production.[2]

- Many economists with influence in decision-making in Pakistan ideologically oppose the

[2] WAPDA accomplished far more as an organisation before the so-called reforms, including some technically amazing feats. We now have power shortages with very high tariffs and citizens paying higher taxes to meet the greed for private profit. Similar examples abound elsewhere and in other countries. Public services in the US and UK too have declined post privatisation. In the 80s, Virgin was hailed as a savior from the trepidation wrought by British Rails, only to now find that Virgin's service is even worse at a higher cost. Not all privatization is bad, but privatizing monopolies is not a great idea.

idea of state intervention in business activities. (Though of late even the so-called homes of free trade seem to have come around. President Biden has been especially emphatic to have an industrial policy to compete with China).[3] Therefore, Industrial Policy needs a reorientation in government thinking, which cannot be done quickly. It also needs new learning and building trust between government and private businesses.

- Likewise, IFIs have taught Pakistan that tariff protection for new industry, a necessary part of industrial policy (though to be used selectively), is a sure route to economic disaster. In addition, now WTO rules may disallow some support to industry, while TRIPs make it expensive to acquire technology. Yet in Pakistan, industrialisation was rapid in the 1950s and 1960s, when Pakistan openly espoused import substitution, had high tariffs and offered DFI credit and other incentives to industry. (Each developing country has done much better with higher tariff and import substitution than under free market).

- Meanwhile, this hands-off approach has taught the influential ones in the private sector to lobby for personal accommodation and support. These interests too will not support an industrial policy whose incentives are offered on merit.

- The private sector is now used to coddling. They like to accept incentives but do not want constraints or act in the overall interest of the economy. Despite large subsidies, textile and apparel have shown little progress towards branding and adding new products to exports. Similarly, with private power production or auto assembly.

- The third level of support requires knowledge of the individual industry and an autonomous bureaucracy that is expected to take decisions on merit without political influence.

Therefore, it is a long road between the decision to adopt an industrial policy and its effective implementation:

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3 They were never free market practitioners. Until 1950, Average tariff rates were UK 23, US 14, Canada 17, Germany 26 per cent. They had similar rates before the war. Today, Pakistan is at 10.5 per cent. Between 1950 and 1980, the US government financed up to 65 per cent of national spending on R&D.

- It requires top-level commitment with long-term vision (Lee Kwan Yew, Mahathir Mohammad, Deng Xiao Ping). Leaders must have national pride, must stand up to foreign influence and domestic lobbies and make industrial growth a national priority with their consistent involvement. It cannot be outsourced to bureaucrats or technocrats.

- Leaders must have the ability to impose their vision through state functionaries, federal and provincial. (When given responsibility, bureaucrats have achieved a great deal).[4]

- And leaders would need to convince the private sector to buy into the idea. The private sector is an equally critical agent in implementing industrial policy. Few people believe that the private sector also has a role in building an efficient and competitive economy.

- Targeting of industries: a developing country does not have the means to support all industries at once. So, it must target. The target industry will be those with the next level of technology and with the best possibility to export and succeed in the global market. To target well, the government must have information about industries, decide on the support they need to succeed, and the private sector willingness to invest. (Targeting is criticised by neo-liberal economists because bureaucrats cannot choose winners. If done with clear goals and criteria, there can be as many success stories as failures, which is better than what we have now).[5]

Following proposals and recommendations were made by Mr Khan:

i. A gradual approach and not to immediately follow the East Asian industrial policy model entirely. Even in East Asia, not all industrial policy measures were always implemented. Despite a gradual approach, it is a difficult road to embark on. However, it must be done, if Pakistan must progress out of its present endless loop of low savings, low investment, low technology and low growth, whose only one guarantee is a dependency on foreign aid. Pakistan needs a fundamental change in approach, in absence of which Pakistan will

4 Bureaucrats set up SBP, WAPDA, all the DFIs and PIDC (key to the 60s economic growth), PAEC, public universities in Pakistan. Military set up NADRA. More recently, we have the example of very successful mass transit in Lahore built in time by bureaucrats with great results. It is critical to invest in their technical and behavioral training for them to become useful agents of change and enforcement.

5 Shahid Javed Burki, "Industrial Policy: Domestic Challenges, Global Imperatives, and Pakistan's Choices," *Lahore Journal of Economics*.

be making claims about an increase in exports and production based on selective data, but with no real economic momentum.

ii. Pakistan's focus should be on industries for exports, with an increasing level of technology and value addition. At present, its exporters compete on price. Pakistan cannot get premium prices with this approach. The other goal should be to reduce the role of rentier industries (IPPs and autos). After a few years of support by the government, if an industry cannot survive without subsidy the support must be withdrawn. Taxpayers cannot forever come to their rescue.

iii. Transit from an economic policy whose main goal is entirely strengthening of economic fundamentals (so far unsuccessfully) to one that promotes investment in manufacturing and agriculture for exports. All government economic policy and measures must consider its impact on investment in the productive sector. There is a need to always balance between macro goals and industry requirements.

iv. Study global trends in manufacturing, such as outsourcing and global (or regional) value chains. This makes the manufacturing of parts and components vital. And that means supporting SMEs on priority. At present SMEs have very little access to credit and virtually no access to new technology. It is hard for them to acquire land to set up units. (Recently, there is an attempt in the West to reverse the outsourcing trend to compete with China but there cannot be a major reversal).

v. There is a need to have basic industries in Pakistan, whose positive externalities are well proven. Investment in steel and chemical industries is fundamental to industrial growth. Because they are capital intensive, it cannot rely on the private sector alone to invest in them. They should begin with considerable government equity and preferential credit, with independent management but with enough private equity to ensure that, the latter too is committed to its success. The basic industry will ensure reliable input supplies to downstream private industry.

vi. The idea of a public sector machine tool factory, heavy industry corporation and heavy electrical corporation was good. Pakistan's later reorientation to abandoning the public

sector in favour of the private sector and letting the former starve of financial and foreign exchange resources ensured their failure. They need to be revived with extensive preferential credit and some private equity. Whether they are under civil or military leadership, the one test to measure their success is how they are helping new industries and new products grow in the downstream sector.

vii. The chemical industry will provide input to a host of downstream petrochemical and engineering products, whose development is stalled because of costly imports.

viii. Establish a petrochemical complex in Hub. This complex should include a refinery, a naphtha cracking facility and facilities for manufacturing certain petrochemicals for which demand has been ascertained. At Hub, Byco has the country's largest refinery, with Naphtha supply from other refineries producing about 60 per cent Naphtha in the country. Make this a public-private partnership because of the scale of investment involved. The textile industry too will gain from this.[6]

ix. Whether the CEO of these basic industries is from the government, military, or private sector the corporation's success will depend on their selection on merit (not access), the CEO and the Board be given independence with resources (credit, foreign exchange, and human resource). However, clear performance benchmark for retention and compensation. Such measures need the consent of many powerful stakeholders.

x. Pakistan must have a Manufacturing and Export promotion board:

- Rebrand the Trade Policy and make it Export and Manufacturing Promotion Policy with a tenure of three to five years to build manufacturing for exports.

- It must be owned as an inter-ministerial document involving the ministries of Commerce, Industry, Finance/Revenue Ministry (FBR), Science and Technology (and their research and standards affiliates), provincial governments, State Bank of Pakistan, the HEC, BOI, SMEDA and TDAP.

6 This bullet and other ideas on basic industries taken from, LUMS, Abid Burki, Kamal Munir (Cambridge University), Mushtaq Khan et al, Industrial Policy, Its Spatial Aspects And Cluster Development In Pakistan, Page 180

- It must select target industries for incentives and support and ensure that there are enough firms in that industry for competition among them. The Board will ensure that incentives offered are provided and that firms perform to predetermine performance criteria (especially export measures) to receive incentives.

- This Board must review public sector CEO performance.

- This Board must plan and announce incentives for the promotion of manufacturing, such as tax incentives, credit allocation, forex allocation and more. (Lead implementation of industrial policy).

- Setting up of Industrial Parks and SEZs in the country and monitoring of their performance.

- Businesses may bring cases of over-regulation or official delays to the Board to resolve operational issues.

- Board must ensure that provision of incentives is based on the claimants' performance. There should be no other criteria.

- In short, this Board will be the planner and implementer of the industrial policy.

xi. PSDP spending must be re-oriented entirely to serve the goals of manufacturing and exports.[7] This will make the government work as a tightly functioning and coordinated unit.

xii. Set up a National Commission on Science and Technology on the lines of the successful Pakistan Atomic Energy Commission:

- Their priority should be to help the private sector in new product development.

- Focus on STEM education, technical training, R&D, setting up of specialised technology institutions and effective enforcement of standards and testing.

[7] That is establish clear criteria for PSDP to fund infrastructure in support of target industries and human capital in those industries. Say, Pakistan decides to manufacture micro-chips, federal and provincial PSDP must ensure that industry (in SEZs or industrial parks) receive infrastructure and training support.

- To ensure consistent quality of goods produced in the country and especially to do away with Pakistan's global image as a supplier of sub-standard goods. The government must strengthen standards, testing and inspection organisations bring them under the aegis of the Commission and hold them accountable for performing at a high level. This is also necessary where the government is offering tariff protection. The private sector must not use the protection to manufacture substandard products at a high price.

- FDI must be allowed with conditions, especially in SEZs where they will access many incentives. The conditions may include any export requirements, technology transfer, local components sourced from local suppliers and training of workers. Otherwise, FDI does more harm than good, e.g., in autos, IPPs, where remittances in the shape of profits, license fees and transfer pricing far exceed their investment amount. The IFIs will criticize. Let them do so.

Remarks by Dr Usman W. Chohan, Director for Economics & National Affairs at CASS

Dr Usman W. Chohan, Director for Economics & National Affairs at CASS, in his presentation said that Pakistan did tremendous work in industrialisation particularly in the late 50s to the 60s, what was called a decade of development. It was multi-stage planning large capital investments and high growth rates, other countries drew upon this approach to develop industry themselves. Pakistan was almost seen as a shining star perhaps a true original emerging market that has yet to emerge but then in the 70s as was alluded to by two speakers this nationalisation mantra led to state control. The problem is that if you think of socialism as a stage three society and feudalism as a stage one with capitalism as stage two the intermediate in the Marxian paradigm. Then you had stage one people decimate stage three system and feudalist were managing socialism it was like dropping a nuclear bomb on the country's industrial potential. The twenty-two families did monopolise resources in many ways and they were certainly imperfect but what Pakistan surrendered in that process was the true Asiatic model of industrial development. The Chaebol in Korea and the Zaibatsu in Japan had that sort of driving that you have these big families with big capital that work hand in hand with government design. Once the government decimated those families, the country has never really bounced back and never recovered that trajectory again.

Looking at Pakistan's immediate South Asian neighbours, the growth of manufacturing has been quite rapid in Bangladesh above all. In a 200-year context of how India was structured under the Mughal Empire, the surplus recycling was done with the manufacturing power being in the eastern provinces of Bengal and UP. This is where the industry happened. West Pakistan was more agriculture-based and the system was recycling within a large subcontinental economic system. It is not a surprise therefore that Bengal would succeed industrially because they are an industrious people and whatever the British did to decimate it, it is no surprise that they would ultimately bounce back. Today Pakistan's manufactured goods represent a lower percentage of exports that than Bangladesh does and manufacturing is a smaller and smaller component when seen in size compared to the overall economic product of the country. Thus, Pakistan has lost its share of export manufacturing orientation but countries such as Vietnam and Bangladesh have grown it several times over so Bangladesh's share in the world exports has doubled and Vietnam's has grown sevenfold.

Many problems underlie why Pakistan's share hasn't grown, the size of manufacturing relative to GDP hasn't grown and why the industry hasn't been a major driver at least in the past 50 years. There are nitty-gritty things like rampant under-invoicing, imports are misdeclared, disproportionate taxation burden on industry relative to its size, oftentimes fiscal policy is structured as a short-term thing to extract something from industry rather than seeing the investment in industry as a long-term oriented measure and smuggling.

Pakistan's FTAs also need to be looked at, as they do not necessarily suit its economic development taken from the country's specific worldview and requirements. Pakistan's industries have not advanced in the past 30 years; they are doing the same stuff now as a generation ago. Further to do things the input costs that industrialists require energy, transportation, logistics and labour, there are deficiencies on all of these. Energy is one that continually comes up because if you do not have a stable grid and you don't have enough low input costs as opposed to your competitors, for example, China has a stable grid and other countries have stable grids well then you have a fundamental disadvantage before you even begin to produce. As such, our economy is structurally not very complex.

The industry is not a significant enough component of Pakistan's exports, agriculture is still a large component, services are growing but they are not very large in the big picture and so even within the industry, it is quite rudimentary stuff. This is not a 21st-century economy. There is a phenomenon that is being experienced here but not just here; it is also in Latin America parts of Africa, which countries are de-industrialising before even really industrialising, premature de-industrialisation.

Pakistan is not integrated into the global architecture of producing and consuming it is sort of on the sidelines. But industry often is a very good and meaningful place to generate employment and Pakistan requires two to three million jobs every year given that it is a large country and cohorts are born and they come of age and they require employment that has security implications if there is a restive young population that doesn't have meaningful engagement and this bites you in several ways.

If Pakistan has an industrial policy, targets are important, like the country should have a certain percentage of GDP relative size should come from manufacturing, investment as a percentage of GDP should be X per cent the numbers here don't particularly matter but policy should have certain targets that it wants to achieve and they have to be seen in the larger context of what is possible what has been done by other countries. Manufacturing goods relative to the size of Pakistan's total export portfolio and a certain annual rate of manufacturing, these targets then drive the measures the country should take.

Manufacturing is one sector in the economy and its ability to accomplish the country's economic goals must be seen in the context of other sectors. Therefore, agriculture, retail and wholesale particularly from the fiscal policy and the taxation element received differential treatment relative to manufacturing and real estate has become a big area of speculative activity, it is not about house building because house building involves many manufacturing sectors but the speculative capital. Capital that circulates around cities as people exchange files for properties that have already been built. A lot of money gets sunk into that sort of unproductive speculative activity. So, if you look at the overall size of the economy and its various sectors where is capital being diverted that is a big problem. Remittance is another part of that, people send money back for consumption purposes and to one-up their neighbours by building larger houses rather than

having that money stimulated into the industrial sector, so a look at industry relative to its other sectors is important.

Duties for raw materials and cascading structure of what you charge for what you bring into manufacture is a big recommendation. Tariff commission the business council should be more proactive and reasonable in the way tariffs are put because you do need to bring things from abroad to manufacture as part of a manufacturing hub to then export out. Pakistan also must look at its FTAs some of them have been very smartly designed, some of them require further work if they should be there at all.

Globalisation is in retreat anyways it was a fad, that's not that regionalism is the one driver but our region is a very difficult region to deal with so Pakistan shouldn't leap on the mantras of globalisation circa 1980, the world economy is now different. If you have the industry for taxation for short-term financial needs, it is not going to do any long-term benefits in terms of driving manufacturing as a core pillar of economic strategy. One way to do under-invoicing monitoring is to exchange data with other partners; tougher measures need to be taken to make sure that the black marketing is mitigated particularly at the smaller scale manufacturing level.

Working on the energy mix is a very important issue in Pakistan, there is a parallel between the US and Pakistan in terms of there being one specific sector where the rest of the world thinks you should just fix it and Pakistan can't or won't do so. In the US it is healthcare it's a developed country and it has every means possible to get things done but health care is still a complex problem, similarly in Pakistan energy remains a complex problem although everybody else seems to have fixed it. Then in terms of the regulatory environment, Pakistan has central and provincial governments and the rules do not always coalesce so, people trying to expand from one province into another, their operations or to achieve the greater scale they must deal with different systems. The way that the devolution of power has happened in the 18th amendment makes it that it has not reached the district level, street-level governance. There is a need to look at how provincial harmony and the federal umbrella makes things happen in a more streamlined manner this also includes standards, taxes, legal issues and so on.

A few days ago, Pakistan was downgraded from an Emerging market to a Frontier market for the MSCI index the reason was that the capital markets volume is not that large. Having feed capital

markets to then allocate capital to various projects so this is the private market mechanism in addition to the state. Along with the state, the market also has some contribution to do at least in theory but Pakistan's capital markets are not very deep and they are not very inclusive and as a result, now it is being downgraded. Even in that sense neither is the state planning activity happening in the right way and nor is the market working in the right way so if you want to take one stance or the other depending on your ideology, please play it out to its fullest.

Having large entities that structure industrial growth is very important because there's a lot of scale issues with small players that can be reconciled by having larger systems whether large corporations, large family businesses or whatever but scale matters. The reason SEZs have succeeded in some countries is that they were transitioning from one economic system to another, China worked because they had at one point two different systems and so it made sense to move capital into the SEZs. Pakistan has had pretty much the same system but there is a worry of concern about discrimination that if you are outside the SEZs you get bad treatment. So, all of Pakistan should be seen as an SEZ and have a good system across the country rather than a special treatment for some.

Industrial policy is a core element of strong geo-economic strategy, and the government is realigning from geopolitics to geo-economics, it is a very important mantra it is a very wise thing to do. The CPEC is a big part of that but the government wants to bring everybody here to do economic activity here that is leveraging our geolocation. Industrial policy must be a big component of that because Pakistan just does not want to be a transit hub, sort of an airport; no, you want to have things happening in Pakistan as part of the value chain. Pakistan has already missed plenty of opportunities and there is a lot of work to do but implementing a strong industrial base will help ensure national economic sovereignty and development.

Remarks by Ms Nazish Afraz, Adjunct Faculty at the Department of Economics, LUMS

Ms Nazish Afraz, Adjunct Faculty at the Department of Economics, LUMS, was the final speaker. She said that Pakistan is in a situation right now where exports have been stagnant and there are some little scattered bits of good news about exports growth, large-scale manufacturing but by and large the overall time trend is unchanged and it is extremely discouraging. Twenty years ago, Pakistan, Bangladesh and India were all at a similar starting point with respect to

exports and each had an export to GDP ratio of about 13 and if one looks even further back Pakistan's was higher than both India's and Bangladesh. However, what has happened since then is that while they have grown their exports Pakistan's have declined steadily and systematically throughout this time. It now has an export to GDP ratio of under 10 and India and Bangladesh have 18 and 13 respectively. It is important to demonstrate the scale of the problem and the length of time that things have gotten from bad to worse. This is not the time to be doing little scattered bits of patch fixing; Pakistan needs a very consolidated and coordinated sort of strategy to get out of this mess. This Make in Pakistan policy, which the government appears to be following, there is no written document, there is no government document anywhere, and there is no articulation of it formally.

There are three kinds of industrial policy objectives that Pakistan can have the first one is diversification both in terms of product and service offering and in terms of the destination market. Another one is to deepen value chains and by deepening value chains it is meant local manufacturing, assemblers in Pakistan so that you begin to instead of importing the raw material with the parts you start to manufacture them in-house and becoming competitive enough to fit into global value chains. The third objective is the up-gradation of value in Pakistan, which is at the bottom end in terms of how much value is being added to a production process. In Pakistan, policymakers are taking blueprints essentially and putting pieces together. The real value is on the two other opposite ends of the processes which are R&D product development design and on the opposite end is branding marketing and so on those are the high-end value-added processes that the country now needs to move towards.

How do we promote exports without getting into the cycle of protectionism is the real question which in the past has led to anti-export bias and an uncompetitive domestic sector that remains focused on the domestic market and that doesn't mature beyond the infant stage? So, if in this Make in Pakistan policy the government is going to provide incentives that are easier for large firms to access, that are easier for existing exporters and existing sectors to access then we will have continued the anti-SME bias. We will have continued our anti-new industry and our anti-diversification bias. We are not going to get a competitive industry that can survive without protection in this way. Therefore, that is what not to do. So, what are the basic tenets of modern healthy industrial policy and this is the new industrial policy.

Industrial policy has changed over the last couple of decades the most important tenet of industrial policy is to focus on horizontal reforms that improve the investment climate across the board this is the tide that lifts all boards and it's not distortionary which is critical in Pakistan context because it has historically used distortionary policies in all its sectors. Since a broken investment climate affects small and new firms more than large established ones repairing this investment climate also improves competitiveness and entrepreneurship and promotes diversification.

Now there are many horizontal reforms. What businesses perceive happens to them is that there is an attitude in government that if you're doing well and if you're making money you're viewed with scepticism and there's an assumption that you're doing something wrong. In addition, regulations are imposed and implemented in a way that is very rent-seeking and it doesn't consider the cost of compliance on those businesses. Then again, if there is information that the state collects for example on soil quality it holds that information. The other issue that is related again to state attitude is policy stability, the frequent changes in the rules of the game and if there is no guarantee or is no stability in the rules of the game then investors take that into their risk assessment and they hold back on their investment whether it is a domestic investor or whether it is a foreign investor. They need to have stable rules of the game and stable policies, which have been articulated and must follow through with them because the investment policies are based on them. Therefore, these kinds of attitudes must go because they create an overall hostile business environment. The attitude must shift to one of facilitation in which the businesses is viewed as a positive for the economy and promoting risk-taking entrepreneurship and businesses. This also means that when businesses experience genuine failure they must be allowed to fail quickly and cheaply and get back on there and on their feet again without being treated as criminals.

The other horizontal reform is investing in education and skills of the young and large population can be country's best asset but only if right investments are made in them. Historically this is another area where Pakistan has declined steadily over time. Public infrastructure and infrastructure that supports the domestic value chains that's very important, intellectual property protection, making it quick and inexpensive to import raw material not just for existing export sectors but across the board also even for new ventures is also necessary. Sometimes it takes so long to get permission to import something that the opportunity has gone and this was seen in the

COVID times where there were very quick opportunities in the pharmaceutical but it took a very long time for those permitted to be given and the local businesses lost out. Therefore, these are some of the horizontal reforms that must be the priority because they are not distortionary.

The second thing in this kind of new modern industrial policy is that instead of promoting certain sectors it promotes and supports value-enhancing activities. They generate positive externalities for the economy, so they go beyond the firm onto the rest of the economy and the protection has moved away from blanket trade protection and factor inputs subsidies. Desirable activities could be labour and management training for example the market typically undersupplies them because if I am a firm and I invest in labour that labour can then move out and get jobs elsewhere so I typically under-invest right so labour management training, then R&D, the acquisition of new technology, license, patents, then investments in quality standards and international certifications particularly those that are required for international market access, then investments in energy conservation technologies, pioneer activities, building domestic value chains by sourcing from local firms this can be for foreign direct investment for large firms. The way that these activities are supported is not in the form of SROs, import tariffs, blanket subsidies, blanket income tax holidays, factor input subsidies but they are in the form of matching grants, tax offsets sharing and setting up of infrastructure costs. All of which is targeted, its performance-based, it is conditional on the firm performing that specific activity that generates spillovers for the rest of the economy.

The important concept behind these kinds of incentives is that they address distortions rather than create new ones and this is a very important point to take on board because many of the policies that have been pursued have spoiled competitiveness by their distortionary impact. The other thing is to be mindful that the type of incentives that are offered can change the decisions of the firm and that can help or hurt governments broader objectives. Therefore, if for example the government is subsidising or lowering the price of electricity the signal that it is giving is to encourage greater electricity use. If on the other hand it subsidises the adoption of energy-efficient technologies, or support energy audits it is helping reduce the firm's energy bills and which is what the reduction in energy tariff also does but at the same time, you are also conserving energy, which is another broad objective that government has. Similarly, if there are income tax holidays in industrial parks and make them conditional instead of having a 10-year

tax holiday. If you make them conditional, sourcing from local firms then it reduces the costs to multinationals and large firms which is the objective of these kinds of tax holidays and at the same time it will help develop capabilities in the SME sector. There has been a lot of evidence on this kind of unconditional income tax holidays in industrial parks a lot of them especially in the kind of environment that Pakistan offers means that firms will come in for the duration of the holiday they don't put their roots in, they don't develop value chains and once the holiday period is over, they can leave. the bottom line is that Pakistan needs a very consolidated and coordinated strategy based largely on horizontal reforms and then incentives for desirable activities rather than picking and choosing uh sectors.

Concluding Remarks by Ambassador Khalid Mahmood, Chairman BoG ISSI

The concluding remarks were made by Ambassador Khalid Mahmood, Chairman BoG ISSI. He said that there is a decline in the manufacturing sector in Pakistan and which is consequently reflected in the declining exports and that something needs to be done at the policy level at the structural level at the implementation level to reverse this trend and hence this Make in Pakistan a policy. New opportunities are opening like the CPEC special economic zones and so on and what Pakistan needs to do is to align policies in the field of trade, fiscal policies, energy, agriculture, labour, capital market and so on.

Two other issues which are important while the government pursues this Make in Pakistan policy it must keep environmental considerations in mind because not only that better environment is good by but also it affects the flow of exports. Now because there is increasing concern that not only these manufacturing should take place in an environmentally friendly atmosphere but also that the exports are also affected if these considerations are not kept in view because not only there are international standards now, they are in this field but also many countries are imposing tariffs to ensure that this manufacturing does not has a deleterious effect on the environment.

Secondly, the government must focus on the knowledge economy also, but it should be also conscious of the fact that now there is an age of emerging technologies and artificial intelligence, blockchain and quantum computing. These are all going to affect the way the things are manufactured, how they are marketed and how these things will play a role in making our exports more competitive, cheaper, and more efficient. This effort is also in sync with the new

emphasis in the government on geo-economics and the government can make this new policy possible only by making the country a more productive and competitive hub and that is possible by aligning policies in different sectors. The role of state enterprises is not something that should be shunned because appropriate state intervention in all these processes has always proved very useful particularly many of the developments which promoted exports that are developed by defence industries.