# REVITALISING PAKISTAN'S INDUSTRIAL SECTOR: A ROADMAP FOR RESILIENCE AND INNOVATION

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## INTRODUCTION

Industrial policy drives economic development, guiding a nation's growth. It transitions economies from agrarian to industrial, fostering diversification and reducing sector dependence. A thriving industrial sector reduces unemployment, encourages innovation and productivity, enhancing global competitiveness. Robust industrial policies boost exports, enriching foreign exchange and trade balance. In essence, industrial policy is vital for sustainable economic growth, prosperity, and resilience.

The discussion here will highlight the importance of industrial policy in driving economic growth, outlining key areas for reform in Pakistan. These include regulatory oversight, institutional framework, workforce development, government support, trade liberalisation, and investment in research and development. We find that resilience and innovation play a crucial role as key drivers of industrial growth.

## INDUSTRIAL POLICY IN PAKISTAN: CURRENT STATE

Pakistan's industrial policies have historically been reactive rather than proactive and have rarely met their goals. The lack of significant manufacturing output growth, low or negative productivity in existing industries[1] , and a decreasing contribution of the manufacturing sector to GDP (17.5% in 2005 to 12.1% in

2018) reflect this failure. The trajectory of industrial policy in Pakistan has shifted over time, from import substitution industrialisation to nationalisation in the 1970s and later privatisation, with a recent interest in Public-Private Partnerships (PPPs).

Frequent policy changes and political instability mean efforts to address the situation, including a 2005 strategy emphasising an 'incentive approach', have not yielded the expected results. Given the sector's underperformance, what are the key areas for reform?

## KEY PRIORITY AREAS FOR INDUSTRIAL POLICY REFORM

### Regulatory Oversight

Regulatory oversight is essential for Pakistan's industrial policy, ensuring fair competition and boosting investor confidence. Streamlined procedures reduce costs and promote SME growth. To support a dynamic, innovative industrial sector, Pakistan needs a regulatory environment that attracts investment, simplifies operations (regulatory sludge costs 39% of GDP)[2] , and maintains standards. Reducing the regulatory burden (with a typical firm spending PKR 153/day on compliance)[3] is central to successful industrial policy.

### Institutional Framework

Institutions are crucial for implementing and overseeing policies. To improve the industrial sector, we must focus on key areas of institutions. We need robust institutions with the expertise and resources to create and enforce policies. Transparency and accountability are also essential for building trust, attracting investments, and ensuring compliance with regulations. Additionally, institutions must be flexible and adaptable to changes in the economy and technology. Strengthening the institutional framework will lay a solid foundation for a competitive and resilient industrial sector, promoting economic growth and prosperity in Pakistan.

### Workforce Development

Workforce development is a vital priority for industrial policy reform in developing countries like Pakistan. To foster economic growth and industrial competitiveness, the government must prioritise education and skills training. This entails enhancing the quality of education, promoting technical and vocational training, and aligning curriculum with industry needs. Additionally, creating a supportive environment for continuous learning and upskilling is essential. The government should encourage public-private partnerships to bridge the skills gap and ensure that the workforce is equipped to meet the evolving demands of industries. By investing in workforce development, Pakistan can enhance productivity, attract investments, and promote job creation, thus driving industrial progress and economic development.

### The Role of Government

Government is crucial for supporting industries by creating the right environment through policies, investing in infrastructure, offering financial help, ensuring rules are followed, and promoting exports. In Pakistan, the government's involvement has grown significantly, reaching around 67% of the economy[4] , which limits private investment and entrepreneurship. A business-friendly setting with steady policies is essential for nurturing industries in Pakistan. It allows companies to plan for the long term and attracts both local and foreign investors, spurring economic growth. A leaner government that guarantees stable policies and a business-friendly atmosphere is thus critical for building a strong and competitive industrial sector.

### Innovative Approaches to Industrial Policy

While there is general consensus that the state has a key role to play in industrial development, the extent of this role is up for much debate. In the case of Pakistan, the footprint of the government on the economy is as much as 67% of GDP[5] . The cost of excessive regulations and sludge in the economy is as much as 60% of GDP[6] . Clearly the focus of the state needs to shift from managing industrial activity to facilitating industrial activity and reducing the regulatory burden. In addition, the state must focus on promoting R&D and technology acquisition efforts in the industry.

Investment in R&D is crucial for industrial development, driving innovation, technological progress, and industry competitiveness. Pakistan only invests a paltry 0.16% of GDP on R&D, which means we lose out on cutting-edge products, enhanced productivity, and new market opportunities. Nurturing an innovative culture based on R&D is vital for long-term success.

Technology transfer and acquisition are pivotal for developing countries. They accelerate industrial growth, enhance productivity, and reduce R&D time and costs. Moreover, they help address local challenges and create jobs, promoting competitiveness and sustainable development. These aspects are essential for advancing developing countries in the global economy.

[1](Mahmood & Siddiqui, 2000; Siddique, 2020)
[2](Haque et al., 2022)
[3](Nadeem ul Haque et al., 2023)
[4](Raja Rafiullah & Usman Qadir, 2021)
[5](Raja Rafiullah & Usman Qadir, 2021)
[6](Haque et al., 2022)

## CONCLUSION

Industrial policy is vital for a nation's economic development. In Pakistan, past policies have been reactive, leading to a lack of manufacturing growth, low productivity, and a declining manufacturing sector contribution to GDP.

Key reforms are suggested to reverse the trend:

- Regulatory Oversight. Establish a fair, transparent, and investor-friendly regulatory environment to simplify operations, and attract investments.
- Institutional Framework. Implement and monitor industrial policies efficiently, promote collaboration, and ensure adaptability to changing economic landscapes.
- Workforce Development. Prioritise education and skills training, foster public-private partnerships, and bridge the skills gap to enhance productivity and attract investments.
- Government Support. Limited to creating a stable, business-friendly environment with consistent policies, encouraging investments, fostering entrepreneurship, and job creation.
- Innovative Approaches. Shift the government's focus from managing to facilitating industrial activity, reduce regulatory burden, and promote R&D and technology acquisition.

In summary, a dynamic and innovative industrial sector is essential for Pakistan's economic development, and these reforms are key to achieving this goal.

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