

Chapter
11**Manufacturing Sector****Growth Performance**

The manufacturing sector as a whole grew by 8.4 percent during FY 2006-07, while the large scale manufacturing (LSM) is estimated to grow by 8.8 percent and small scale manufacturing (SSM) by 8.1 percent. The data for 100 industrial items for three quarters of the year 2006-07 implied that LSM growth may be higher during Jul-Mar of FY 2006-07 as compared with the corresponding period of the last year, but suggests that the 13.0 percent growth target of LSM sector for the year 2006-07 may not be achieved. Major industries supporting the recovery in LSM included textiles, sugar, cement and basic metals. The automobile industry, however, registered a slowdown in growth during July-March 2006-07 relative to the corresponding period of the year 2005-06. However, industries such as fertilizer, paper and board and engineering showed a decline in production during this period mainly due to weakness in demand and temporary shut down for maintenance as well as expansion. Infrastructure bottlenecks and power shortage are major constraints in achieving the manufacturing targets of 13 percent for the year 2006-07.

Public Sector Investment 2006-07**Industry Sector**

An investment of Rs 3,275 million from PSDP was planned to be undertaken during 2006-07 in the industry sector. The major projects initiated during the year under review include *Aik Hunar Aik Nagar*, five Advanced CAD/CAM Training Centres, Technical Up-gradation of Garment Industry, Agro-food Processing Facilities at Multan, Sports Industries Development Centre, Sialkot, Gujranwala Business Centre, Gujranwala Tools, Dies and Moulds and Water Desalination Project Gawadar, Baluchistan.

Textile

In view of anticipated competition with countries like China and India in the global markets particularly in the backdrop of opening of Chinese export of textile and clothing in European Union and USA in 2008, efforts are being made to make the textile and clothing sector to be more dynamic and competitive. To achieve this objective, a separate Textile Industry Ministry was created and a number of projects including Lahore, Faisalabad, Karachi Cities and Karachi Textile City projects have been planned in the public sector with an investment of over Rs 3.5 billions, of which two projects Lahore Garment and Faisalabad Garment Cities have been initiated during 2006-07 with an investment of Rs 997 million.

Commerce

In order to accelerate export, an investment of around Rs 3 billion was planned in the commerce sector. A number of projects including Social Accountability SA-8000, Expo Centre Lahore, Pakistan School of Fashion Design, Lahore and Trade and Transport Facilitation projects were initiated during the year under review. An

investment of Rs 1,986 million is estimated for these projects during FY 2006-07. Two major projects of Pakistan School of Fashion Design Lahore and Expo Centre, Lahore are expected to be completed by June, 2008.

Prospects for 2007-08

Objectives and Priorities

Diversifying the manufacturing sector, developing SMEs and enhancing productivity are the major objectives to be achieved in the manufacturing sector. Pakistan has to make important strategic choices to ensure sustainable growth in the manufacturing sector in a rapidly changing and challenging international competitive environment. This requires massive structural changes, shift in the production paradigm to technology and knowledge based industrialization, with a focus on the quantitative and the qualitative growth of an integrated and competitive industry in the private sector. The inefficiencies of import substitution must give way to an export led strategy. The share of knowledge and technology intensive engineering, electronics, pharmaceutical, chemical and non-metallic mineral products, would be strengthened and enabled through fiscal and tariff means as well as building of alliances with international partners. Sectors and products with comparative advantage such as textiles, food and agro-processing would similarly be fostered.

A focused policy thrust, supported by adequate resources, will be adopted for raising the threshold levels of the technology and skills base which will result in better productivity and quality. However, this needs to be accompanied by diversification, as well as physical and social infrastructure, standardization, and certification to match the growth requirements. Pakistan will be made a business friendly country through lowering cost of doing business, facilitation mechanism, reduction of procedures, intrusive inspection laws, and co-ordination of policies at the federal and provincial levels. The private sector is the key stakeholder in the growth strategy, and would receive its due emphasis, while the role of public sector would be that of a catalyst and an efficient regulator to ensure competitive market structure. Private and public sectors are required to go side by side to solve problems and formulate the tools and mechanisms needed to overcome constraints and exploit opportunities.

Challenges and Constraints

The manufacturing sector still revolves around the traditional low value added industries, whose share in world trade is continuously declining. The investment in upgrading technology is low and diversifying into emerging markets, products and processes is either slow or nearly constant. An efficient, international quality supply chain, which is so essential for local industry to flourish, is missing, partly due to insufficient scale of economies, and partly due to bundling of raw material, parts and modules by the multinationals in their assembly oriented companies, which discourage a local vendor industry to flourish. Major constraints in achieving the goal of rapid industrialization, are given below:

- **Productivity Levels:** A serious constraint in achieving global competitiveness has been the low productivity level. Without the development of a widely embedded skills base, competence and productivity, global trading challenges cannot be achieved.
- **Skills:** Pakistan is facing both a skills shortage, and skills gap in key modern technologies. This reduces optimum operation of plant and machinery.

- **Inadequate and Unreliable Power Supplies:** Inadequate and unreliable power supply, a major constraint, is getting worse and causing poor competitive rating.
- **Saturation of Capacity:** Many key sub-sectors such as steel, automobiles, fertilizer, paper and paper board, chemicals etc. are facing saturation of capacity.
- **Transport and Communication Infrastructure:** Current road and rail network is inadequate even for immediate demands, and even more poorly maintained. Port congestion and port charges are high, adding cost and lowering competitiveness.
- **Certification and Standards:** While some progress has been made, many of manufactured products still lack proper certification for quality and safety, which hinders their wider acceptance locally and globally.

Policies, Strategies and Measures

Achieving accelerated industrialization is the foremost goal by capitalizing upon national strengths and mitigation of weaknesses. The challenge for Pakistan is not to rediscover industrial policy, but to re-deploy it in a more effective manner in the national, regional, and global context. The policy framework will be based upon the advance industrial economies, where focus is on the entire value chain. The provision of facilities for public testing laboratories and public R&D, vocational and technical training, infrastructure and communications, are all necessary inputs which are regarded as a public good for the manufacturing sector. Value addition in products and processes will be strengthened through backward and forward linkages, productivity levels will be increased through human resource development, technical and vocational training, and strengthening research and development.

All sectors have been opened for private sector investment, and equal treatment is available to foreign and local investors. The basic thrust of the Plan will remain manufacturing and technology driven growth within a framework, which encourages economy of scale, value addition and diversification of products and processes. Major policy measures planned to be adopted for the year 2007-08 include the following:

- **Diversification and Pioneering Industries:** One the foremost objectives is to diversify the manufacturing mix and generate new areas of comparative advantage. Incentives will be available for new activities, whether they are 'new' products, processes or technologies, so that the range of activities is expanded. Enterprises specially those engaged in light engineering, or those in sub-sectors declared as 'pioneering' industries, will be encouraged to foster joint ventures and productivity enhancement
- **Industrial Zones, Corridors, Clusters and Estates:** Present urban/ industrial centres cannot accommodate the expected increase in industrial and manufacturing activities. Industrial corridors, estates, and industrial parks are therefore planned to be set up by Provincial Governments along the motorways, expressways, and railways with full support of the Federal Government.
- **Strategic Alliances, Technology Transfers, License Fees:** Acquisition of technology, promotion of technology-based small firms, reducing the cost of commercialization of locally generated technology, reducing the cost of

introducing new products and promotion of venture capital will be key strategies to meet the objective rapid industrialization.

- **SMEs:** Special incentives are planned to be offered to Small and Medium Enterprises (SMEs) by the state to upgrade existing skills, processes and technologies, as well as in becoming part of the international supply chain. Such SMEs have a major role in employment generation in the country.
- **Knowledge and Technology Base:** The structure and content of educational and technical delivery will be modified to encourage broad based education, economically usable skills, and lifelong learning as required by the new industrial culture.
- **Industry Academia Linkages:** Business Development Units (BDUs) and technical training courses will be encouraged in Universities, so that fruitful academia-industry partnership would evolve.
- **Certification and Testing:** Product ratings and approvals based on international quality benchmarks and accreditation will be actively pursued.
- **Transport and Communication Infrastructure:** Development of transport, communication and storage infrastructure is essential for economic growth, whether in services or manufacturing. Fast, efficient and affordable physical communication links including roads, railways and ports, will be provided with public private partnership.
- **Legal and regulatory Framework:** The wider issue of Intellectual Property Rights (IPRs), or fast, efficient and transparent dispute resolution will be tackled with highest priority to complete its conformance with international conventions.
- **Cost of doing Business:** Cost of doing business, rationalizing taxes and tariffs, tax rates, labour levies, utility prices and fiscal policies.
- **Attracting Investment:** Major changes and reforms will be initiated in land prices and rights, contract enforcement, tax administration, customs procedures and social welfare laws to attract foreign investment.

Growth and Investment Targets

In order to achieve the goal of sustained industrialization, a growth rate of 10.9 percent has been targeted for the manufacturing sector including 12.5 percent for large scale manufacturing and 7.5 percent for Small Scale Manufacturing. An allocation of Rs 18.75 billions has been earmarked for both the Industry, Textile and Commerce sectors which is the highest one ever made in these sectors. It consists of Rs 8.473 billions in the Industry sector, Rs 1.097 billions in Textile Sector and Rs 1.579 billion in the Commerce Sector. Major projects to be carried out in Industry Sector during 2007-08 include: Agro-food Processing Facilities at Multan (Rs 69.86 million), Aik Hunar Aik Nagar (AHAN) (Rs 60.369 million), Gujranwala Business Centre, Gujranwala, (Rs 13 million), Sports Industries Development Centre Sialkot (Rs 168.74 million) ; Technical Up-gradation of Garment Industry all over Pakistan (Rs 100 million), five advanced CAD/CAM Training Centres (Rs 139.4 million), Gujranwala Tools, Dies and Moulds Centre (Rs 295.000 million), 2MGD Water Desalination Project Gawadar, Baluchistan (Rs 178.86 million). Major projects in the textile sector include 03 Garment Cities at Lahore, Faisalabad and Karachi, implementation of Export Plan and establishment of two Fibre Testing Laboratories. Major projects to be carried out in Commerce Sector include SA-8000, Pakistan School of Fashion Design, Lahore, Trade and Facilitation Project and Expo Centre, Lahore.