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Q: Industrialization is the backbone of modern economic system and uplifts the standard of living of the masses. Elaborate causes for hindrance of industrial development in Pakistan.

Outline

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a) Lack of skilled labor/human resource development.

b) Lack of innovation

Introduction

For developing nations like Pakistan, industry occupies a key position in the development of a country. Its development raises national income, creates employment opportunities and improves the balance of payments position both by producing exportable goods and by substituting imports, but also supports and stimulates development in other sectors of the economy. However, in the case of Pakistan, there has always been a hindrance of industrial development. From energy crisis and inadequate infrastructure to ~~bea~~ bureaucratic inefficiencies and political instability, these obstacles have thwarted the nation's aspirations for accelerated industrialization. To overcome these challenges, Pakistan needs to ^{have stable and secure business environment, encourage} ~~promote~~ research and developing, ~~improve~~ ^{As} ~~transport network,~~ ^{Public-private partnerships,} ~~and infrastructure development,~~ ^{Promote} ~~and~~ human resource development, and promote special economic zones.

Snapshot of industrial sector of Pakistan

As per the economic survey of Pakistan, the industrial sector contributed 12.4% to the GDP in 2022. It has been divided into three tiers, i.e., Large Scale Manufacturing ^(LSM) which dominates the overall manufacturing sector as it contributes 9.2% to the GDP and accounts for 74.3% of the sectoral share, Small Scale Manufacturing (SSM) which contributes 2% of the GDP, and its sectoral share is 15.9%. The slaughtering accounts for 1% of the GDP and 9.7% of the sectoral share (GDP, 2022).

Pakistan has the fifth largest trade market in the world after China, India, the US, and Indonesia, but the country was ranked 42nd in terms of ^{nominal} ~~nominal~~ GDP. The exports of India and

Indonesia are \$ 322 and \$ 188 billion, and exports of Pakistan were US\$ 25.3 billion in 2022.

Causes of hinderance of Industrial development in Pakistan

1) Lack of skilled labor

The shortage of skilled labor and a mismatch between the skills demanded by industries and the skills possessed by the workforce posed a significant challenge. This gap led to lower productivity and hinder the growth of certain sectors. The

~~2) Lack of innovation~~ International Labour Organization (ILO) has measured the labour productivity (output per person) of different countries and stated that China's labor productivity has increased up to 388%, India's by 177%, Bangladesh's by 109%, and Pakistan's labour productivity is only 32%.

2) Lack of innovation

The transition of companies from ~~larger smaller~~ to large size is dependent upon technological upgradation. If companies incorporate innovation, the exports will also increase, an advantage for local firms because they will become more competitive. In The Global Innovation Index, Pakistan was ranked 87th among 132 economies.

3) Lack of diversification

A broad based industrial sector is essential for exploiting the opportunities offered by globalization, but Pakistan's industrial sector lack diversification. Pakistan has long grappled with current account deficits, in part due to excessive reliance on the textile industry as a primary driver of ^{export} growth. This industry also consumes a significant ^{portion} amount of subsidies, further exacerbating the issue.

4) Frequent shortfall of power / Energy crisis

Pakistan has been grappling with a persistent energy crisis characterized by a widening demand-supply gap. Frequent power outages and high energy costs have severely affected industrial productivity. Insufficient and unreliable energy supply hampers industrial production and discourages potential investors from setting up manufacturing units. Due to energy crisis, more than 30 industrial units have been closed in Pakistan in the last five years (^{ISSI} ~~ISSI~~ Journal).

5) Political instability

Cyclic political instability and frequent changes in government policies create an uncertain business environment. Investors become hesitant to commit to long-term projects when the political landscape is volatile. Due to recent political turmoil, the industrial sector of Pakistan has faced a loss of approximately 10 billion dollars (IPRI report).

6) Poor status of ease of doing business

Excessive bureaucracy and complex regulatory procedures make it cumbersome for business to start and operate. Obtaining licences, permits and approvals can be time-consuming and costly, discouraging investment and hindering industrial growth. Pakistan stands at 108 out of 190 economies in the world in ease of doing business, according to the annual rating of the World Bank.

7) Infrastructure deficiencies

Inadequate infrastructure is a significant impediment to industrial development in Pakistan. The transportation networks, including roads, railways, and ports, is worn out and unable

to handle the demands of a growing economy. This not only increases logistics costs but also leads to delays in the movement of goods, affecting the overall efficiency of industries.

8) Impact of nationalization policy on the growth of industries

Pakistan's nationalization policy had a significant and far-reaching impact on the country's industrial sector. Many private industries were taken over by the government, resulting in inefficiencies, reduced competitiveness, and a decline in industrial growth. The value of PIA's accumulated losses and subsidies is over RS635 billion or \$2.8bn, which if Pakistan had today in foreign exchange reserves would solve a lot of its problems.

There are four private airlines that also operate in Pakistan, offering newer aircrafts and comparable or better services and fares.

Way Forward to overcome these hurdles

1) Skilled workforce development

Investing in education and skill development programs is vital to bridge ~~these~~ the skill gaps and equip the workforce with the necessary expertise required by industries.

2) Promote special economic zones

Establishing SEZs with favourable policies, infrastructure, and investor-friendly regulations can attract foreign investment and stimulate industrial growth. Under CPEC, nine special economic zones establishment program has been given in Pakistan.

3) Encourage Public - Private partnerships

Collaboration between the government and private sector can help in developing industrial zones, technology parks, and specialized clusters, fostering industrial development.

4) Stable and secure business environment:

Ensuring political stability and consistent government policies will boost investor confidence and attract both domestic and foreign investments. Similarly, security concerns should be resolved immediately to attract more investors and industrialists in Pakistan.

Conclusion:

In a nutshell, industrial growth is crucial for country's economy and better standard of living of its people.

Since Pakistan's industrial growth is hampered by many factors from frequent short fall of power, lack of skilled labor and innovation, lack of diversification of industries to bureaucratic hurdles, political instability. But, all these issues can be resolved if Pakistan commits to give stable and secure business environment, resolve its political and security issues, and encourage better public-private partnerships will help in fostering industrial development in no time.