DAWN

Industrial policy redefined

Ishrat Husain Published September 27, 2025 Updated about 2 hours ago

The writer is a former governor of the State Bank of Pakistan.

FOR decades, Pakistan has suffered from de-industrialisation, clinging to a dated model of picking winners through tariff protections and subsidies. This strategy has not only failed to deliver growth; it has also entrenched inefficiencies and rent-seeking behaviour. If media reports that the proposed industrial policy seeks to revive sick industries through government support and shield select sectors are correct, the move risks perpetuating economic stagnation. The policy must be redefined with a clear statement of its goals, rationale and key components.

Pakistan must redefine its industrial policy with the aim to build a globally competitive industrial base. The rationale is simple. Previous policies distorted markets and encouraged rent-seeking, with minimal social returns. Had we maintained the export-to-GDP ratio at 16 per cent as in 1999, the total merchandise exports would have reached $56 billion in 2022 — 75pc higher than the $32bn actually realised, with no need for external borrowing, while allowing more imports. Recapturing this lost market share and becoming more competitive is the challenge.

Industrialisation must be central to our growth strategy — not just to boost exports, but to also drive innovation, create jobs and develop a skilled workforce.

This transition must be supported by robust social safety nets to protect those displaced by change. Government, the private sector and academia must work together as industrial policy has to be consistent and linked with agriculture, labour, education, trade, the exchange rate and fiscal and monetary policies. The government's role should shift from interventionist to enabling. It must foster competition, ensure a level playing field and resolve systemic bottlenecks. Protectionism must cede to productivity. The main ingredients of a forward-looking industrial policy should be:

Access to finance: The government must limit its own borrowing to free up access to bank credit and capital markets for the private sector, enabling greater investment in productive activities. The Exim Bank should extend pre- and post-shipment credit as well as insurance to support new exportable products and markets. In parallel, bankruptcy and foreclosure laws need to be streamlined to ensure efficient financial discipline and risk management.

Innovation: Rapid technological change lies at the core of today's competitive landscape, where innovation and productivity growth are closely intertwined. In Pakistan, however, R&D spending has fallen from 0.6pc of GDP in the early 2000s to just 0.28pc today. Greater support for scientific R&D across the public and private sectors is critical to reshaping production structures and processes in line with shifting demand, consumer preferences and technological advances. A comprehensive R&D strategy should prioritise stronger academia-industry linkages, patent development, adoption of green technologies and clean energy, steps to address climate change risks and integration of emerging technologies such as AI, robotics, and data analytics. Establishing an 'Innovation Development Challenge Fund' could serve as a powerful instrument to drive this agenda.

We must redefine our industrial policy to build a globally competitive industrial base.

Global standards and compliance: Global standards on environmental sustainability, governance, human rights and social responsibility are becoming the norm in advanced markets. To remain competitive, Pakistan must ensure compliance with the EU's Digital Product Passport, Eco Design Regulations and product traceability requirements.

Supporting institutions: SEZs, EPZs, technology parks and incubation centres can provide land on lease to foster clusters that promote the exchange of knowledge and skill and provide shared services, leading to agglomeration economies. These clusters would also house quality testing labs, standards compliance metrics and extension services for SME suppliers and vendors. Joint ventures between Pakistani and foreign companies to develop niche products for the global value chain could further accelerate technological upgrades, capability building and discovery of new markets. Also, foreign investors prefer arbitration for dispute resolution and contract enforcement, ensuring smoother business operations.

Deregulation, tariffs & taxation: Around two-thirds of taxes in Pakistan are collected from the manufacturing sector, which contributes only 13pc to GDP. The maze of laws, regulations and NOCs required has hindered the entry of new businesses, stifling competition. Simplifying the regulatory framework and reducing the tax burden on manufacturing would help firms to scale up and encourage new businesses to invest. Removing taxes on inter-corporate dividends would also boost investment. Neutralising the anti-export bias by lowering import duties on intermediate and final consumer goods would be beneficial too. High import duties act as a tax on exports, making domestic markets more profitable at the expense of international competitiveness.

Human capital formation & skilled labour force: A major constraint on productivity growth is the shortage of skilled workers. Technical and vocational training institutes should be scaled up and operated primarily by the private sector, while universities must focus on producing STEM graduates with market-relevant skills. Science and math should be introduced early in the school curriculum and be compulsory at the middle and secondary levels. In manufacturing, value addition depends on research, design, engineering, marketing and networking, while the digital economy needs a large pool of ICT professionals to sustain growth.

Energy pricing: Our persistent energy crisis and high end-user costs have undermined industrial growth and export diversification. To address this, private firms, selected through a transparent, competitive process, should be brought into electricity and gas distribution at the retail level. Large consumers should be allowed to contract directly with power and gas producers, with transmission companies charging fair wheeling fees for use of their network.

Labour laws: Despite having over 70 labour laws, contract, casual, temporary and daily wage employment is standard in our manufacturing sector, discouraging firms from expanding and limiting growth potential. Meanwhile, formal wage employment has stagnated, leading to low-skill levels and limited education among workers. On-the-job training is almost non-existent, and women — well-suited to certain dexterous roles — are often excluded. Hence, wages fall below livable standards and labour productivity lags behind that in peer countries. Only 7pc of firms here offer formal training to employees; those that do see significantly higher productivity levels.

What will be the result of such a redefined policy? If implemented diligently and monitored regularly, it will catalyse the rise of industries that export, save foreign exchange, attract FDI, generate jobs, and build strong supply chains. Pakistan can and must transition towards medium-tech manufacturing with global relevance. It’s not just an economic imperative, but also a national one.

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Published in Dawn, September 27th, 2025