Towards industrial policy 2.0

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Recent developments in the Western countries have reopened the discourse on the need for an Industrial Policy. Pakistan which has gone through Deindustrialization in the last few decades has to examine carefully whether it can benefit from evolving an Industrial Policy of a kind different from the earlier policy which we would characterize Industrial Policy 1.0 . For this purpose the discussion has to take place in its historical context.

At the time of independence, Pakistan had no large scale manufacturing units, except for a Cement, few Sugar refining , tea processing factories , two to three textile mills, and railway workshops. Pakistan was a substantial net importer of manufactured goods mainly from India. Large scale manufacturing accounted for 1.4 percent of GDP while the same ratio for India was 6 percent.

As a dominant agrarian Society, Pakistan did not have a strong entrepreneurial class which could have steered private sector participation. Neither the indigenous class had the capital available so vital for setting up industries.

Industrial policy has had a highly chequered record for over last 75 to 80 years. The reconstructions and rehabilitation of the European economy after World War

II led to active policy interventions, public investment and creation of new international financial organizations for providing financial aid. The Marshall plan executed through a $ 13.3 billion assistance package from the United States was a successful manifestation of this policy as it helped in resurgence of industrialization , investment in infrastructure and recovery of the European economies . Japan went through a series of reforms under occupation forces headed by Douglas McArthur which resulted in rapid and sustained economic growth from 1945 to 1991 . Unprecedented expansion of industrial production , development of domestic market and an aggressive export policy were the pillars of the Japanese success.

.As colonial structures began to unravel and new independent nations began to emerge in Asia and Africa which were poor and underdeveloped there was a quest for strategies to turn these economies around. Drawing upon the experience of developed countries, economists argued that growth can only be achieved through industrialization. A declining share of agriculture in GDP and employment and an increasing share of output and employment in industry was required to achieve growth. Industry grows at a faster pace than agriculture because of economies of scale , a higher capital intensity, Complementarities and backward and forward linkages, and externalities that are not found in

Agriculture. Industry enjoys higher productivity which is crucial for growth and development. The newly independent developing countries striving to achieve rapid growth adopted industrialization as the corner stone of their development policy. They found intellectual support through the work of leading development economists who argued that protecting local infant industries from international competition by supplying capital , foreign exchange at subsidized prices, tariffs on imports , administrative and centralized control on allocation of key raw materials ,imported inputs and foreign exchange could spearhead the drive to industrialization and thus accelerate the growth rate. This was the beginning of the era of Import Substitution Industrialization (ISI) strategy. Pakistan also fell in line and decided to implement these ideas through policy actions.

An undervalued exchange rate , administrative controls on imports particularly consumer goods, high tariffs and non tariffs barriers increased the domestic prices of these goods and set the terms of trade heavily in favor of industry. These state policies cumulated in form of large profitability for the industrial sector even in comparison to the trading sector. The rate of return on industrial investment was so high that industrialists were able to recover their initial investment in one or two years. Thus traders who had earlier made high profits and amassed surplus during the Korean was boom converted merchant capital into industrial capital by importing industrial machinery and manufacturing consumer goods . Manufactures slowly began to displace primary commodities and the first industries to develop were jute and cotton textiles.

The second-stage import substitutions strategy (ISI) aimed at replacing the imports of intermediate goods and producer and consumer durables by domestic products. To facilitate this transition ,the government set up Pakistan Industrial Development Corporation (PIDC) whose objectives were to initiate pioneering ventures in many new areas of industry and to supplement private enterprises where the existing number of private units was not sufficient in relation to demand. The main areas where PIDC was to intervene were heavy engineering (including iron and steel),shipbuilding and jute products . The units that were successful were then handed over to the private sector after completion. In a large number of projects, the private sector worked closely with PIDC in the form of joint ventures. PIDC also located its industrial units in the underdeveloped parts of Pakistan and roads ,infrastructure and power projects had to be built in these areas thus giving a boost to overall development of these areas. Workers and management trainees were recruited and trained to operate these units. Government with the help of the World Bank set up two financial institutions –

Pakistan Industrial Credit and Investment Corporation (PICIC) and Industrial Development Bank (IDBP) for project financing by the private sector.

Thus the industrial policy in Pakistan during the 1950 and 1960s was spearheaded by PIDC that provided initial investment which the private sector could not undertake on their own. These were long gestation period projects and the private entrepreneurs did not have the risk appetite to undertake such ventures, develop skilled manpower and wait several years before realizing the dividends. The results of industrial policy were spectacular and gave credence to the views of proponents of Big push and ISI strategy. Large scale manufacturing had a phenomenal growth rate of more than 9 percent per year in the decades of 1950s and 1960s.There was significant improvement in labor productivity as the sector demonstrated a high capacity for technological adaptation and innovation. By 1969 , a World bank study found that Pakistan's manufactured exports were higher than those of Malaysia,Indonesia,Thailand and the Philippines. The export sector responded positively to the introduction of export bonus scheme which gave a premium on exchange rate conversion to exporter ,preferential access to credit and a series of fiscal incentives.

The share of manufacturing sector in GDP had risen from 7.8 percent in 1949/50 to 26 percent in 1969/70 . Large Scale Manufacturing's share had multiplied six times from 2.2 to 12.5 percent in the same period .

The major underpinnings of Ayub khan's mixed economy model of which industrial policy was an essential ingredient but also it involved developing strong state institutions that guided and directed the private sector. The Planning Commission of the 1960s was a powerful ,technocratic institution that guided the private and public sectors in determining the priorities, the allocation of resources and bringing consistency and coherence in sectoral policy formulation and execution and overall Macroeconomic objectives. Policy consistency and continuity provided a strong signal of credibility to private investors and businesses.

However ,the success of industrial policy and export performance revealed several shortcomings that had serious political consequences . Mahbub ul Haq ,the chief economist of Planning Commission ,voiced the concern that the benefits of these policies were accruing predominantly to 22 industrial families. Such concentration of wealth and economic power in few hands had accentuated income and regional disparities. East Pakistan-the province with the majority of the population ---was completely neglected as none of the 22 families belonged to that province.

Manufacturing footprint and expansion remained highly limited in the province where the majority of the population lived.

The foreign exchange earnings from jute exports which originated from East Pakistan were pre-empted for allocation to the industrialists in West Pakistan. A number of observers have commented that this growing regional economic disparity where per capita income of West Pakistan overtook that of the Eastern province by 1970 was one of the main reasons that culminated in the separation of two wings in 1971. The slogan of 22 families controlling 66 percent of industrial and 87 percent of the banking and insurance of the country strengthened the movement against the then President Ayub khan. His authoritarian regime was without popular representation from the majority province . The military and civil officers mainly from West Pakistan controlled most of the levers of decision making adding further to resentment against Ayub regime.

The separation of East Pakistan on grounds of deprivation of their economic rights validated the main plank of the charismatic Z.A. Bhutto political party-- Pakistan People Party (PPP) ---which won the 1970 elections on the platform of Islamic

Socialism . It was also the time that the Soviet Union under a socialist economic system started to draw a lot of attention of the policy makers as well as academics. They believed that control of the commanding heights of the economy with state-led industrialization would lead to a fair and just economic system. The PPP got an ideological boost from the Soviet model and when it assumed power gave an abrupt death knell to industrialization strategy of the 1960s. All major industries ,banks , insurance companies and educational institutions were nationalized without adequate thinking or preparation or planning. The private sector was not allowed to invest in these industries and sectors and the bureaucrats were appointed to head the nationalized christened as State owned enterprises. With no prior training ,lack of professional experience in running Business enterprises ,risk-aversion , penchant for control rather than delegating powers for decision making at the appropriate level the bureaucrats committed resources to ventures and activities that were neither economically feasible nor commercially viable. In the name of redistribution to the poor, Economic growth and Industrial development were sacrificed making the poor making the poor worse-off. The large scale manufacturing sector recorded a growth rate of 3 percent per annum compared to 9 percent in the previous two decades . The balance of payments difficulties got exacerbated as imports increased four fold and the wide gap between imports and exports was filled by external loans . The external debt problem grew rapidly in magnitude during the decade of 1970s .After this episodic stock of large nationalization of assets-both economic as well as human-and the experience of several other developing countries following the same route ,a number of international studies empirically evaluated the ISI industrialization strategy and found it to be responsible for stifling growth impulses, worsening the balance of payments with the increase in machinery and raw material imports outweighing export performance. The ISI regime ,by turning the terms of trade in favor of domestic industry ,had in-built long term bias against manufactured exports.

In 1990s several important developments brought about changes in thinking about development policy. The winds of globalization that liberalized international trade, opened up financial flows , eased up transfer of technology and gradually removed barriers to international migration began to positively affect growth prospects and poverty reduction in developing countries. The World Bank carried out a seminal study *The East Asian Miracle* documenting the factors responsible for the spectacular economic success of the countries in East Asia region. China which was a closed economy following the conventional socialist model made a drastic departure and began integrating itself into international economy and opening up the domestic markets to competitive forces. By liberalizing trade flows, attracting foreign direct investment, reducing the relative weight of state owned enterprises (SOEs) and promoting private sector, adopting the latest technology in production and processing , incentivizing rural households to grow agriculture commodities without government direction and empowering local governments China was able to make an unprecedented progress by raising standards of living of their population and lifting 700 million people out of poverty.

The Washington consensus adopted by the World bank and IMF had interpreted the East Asian and the Chinese experiences as validation of market friendly economic policies .Other independent economists were of the view that state's direction and guidance to private sector in form of an industrial policy were responsible for the desirable outcomes. While this debate remained unsettled ,the impulses of globalization over the next two decades gave impetus to the proponents of Washington consensus putting the advocates of Industrial policy on back foot. The global economic conditions proved to be extremely favorable for developing and emerging economies who were able to make great economic strides fortifying the views of those advocating liberalization , privatization and deregulation and shunning protection to domestic industries-- a key element of industrial policy .

During 1990-2010 the number of persons living below the poverty line fell dramatically from 2 billion to 897 million bringing down the share of poor people from 37 to 13 percent. Real GDP of Emerging and developing economies (EDEs) grew by 4.7 percent annually on average and per capita income increased by over 70 percent. On a population weighted basis excluding China , the increase has been about 90 percent. China' per capita income multiplied 54 times since 1980 and its GDP stands next to the US today. Consequently the relative share of EDEs in the global GDP (measured at purchasing power party) increased to 57 percent by 2014.

India which was a closed economy with excessive controls of bureaucracy in form of license ,permits, prices etc faced a serious balance of payment crisis in 1991 . As part of a comprehensive and deep rooted reforms the Government decided to open up the economy , dismantled the controls and license raj, incentivized Private sector and attracted foreign direct investment and technology. The results have been spectacular -India has achieved growth rate of 6 to 7% per annum over last 15 years , foreign exchange reserves have accumulated to $600 billion with a smooth transition of people from poor to middle class.

However the Global Financial crisis of 2008 to 2009 and the financial instability widening wealth and income inequalities even in fast growing countries, such as China and India, the geopolitical tension arising from the ascendancy of China and its challenge to the United States ,the pandemics of 2019 and the resulting supply chain disruption ,the impending climate change risks , commodity price-escalation , Ukraine-Russian war, transition to renewable energy, emergence of global value chains instead of vertical integration where dependence on other countries supplies is heavy ,Control on key technologies by competing countries against the established ones and anti immigration sentiment have sparked a debate over the need to resuscitate Industrial policy.

The evidence for the post 2010 period is overwhelming. World trade fell by 5 percentage points in 2016-19 relative to GDP. Global flows of long term investment fell by half and FDI from a peak of 5.3 percent of Global GDP in 2007 to 2.3 percent in 2021. In 2018-19 , net addition of immigrants was 200,000--- a decline of 70 percent from the previous year. In 2016, the incomes of the highest 1 percent of US earners were 225 percent higher in real terms than they had been in 1979. For the middle class the growth was 41 percent.

Instead of choosing the winners and losers which was the case with the Industrial policy 1.0 the thrust of the new policy that is still evolving is to align the pattern of production to meet the future requirement of the economy, integrate in the Global Value chains, , invest in research and development of technologies that give an edge and spurt to the economy, and invest in human capital formation throughout the life cycle right from early childhood development to social protection.

Academic literature and experience of successful countries in East Asia, China and Viet Nam does no longer consider state and market as a binary but self reinforcing and complementing each other. A capable and effective government with competitive and well functioning markets will produce the optimum results. Governments should invest in research and development skilled and trained labor force and develop, symbiotic public private collaboration , digital infrastructure and core data capabilities. Private Sector should be engaged in production, distribution and exchange of goods and services , pay their due taxes and curb anti competitive practices such as collusion, cartelization and contrivance .The 2019

Pandemic has shown that business and government can't be really disentangled- they rely on each other more than the partisans care to acknowledge . Pfizer vaccine is based on insights into chemistry and molecular biology developed in government and university labs over a long period of time . The state funded basic research , enforced patents and safety regulations and the industries turned raw ideas into a Marketable product.

In recent years , a perceptible change in the attitudes is observed. . The forceful advocates of globalization-- the US and other Western Powers --who used to preach quite forcefully to developing countries to open up their economies have gone into retreat. The main champion of globalization at the World Economic Forum a few years ago was none other than President Xi Jinping whose country has tasted the elixir of globalization .President Trump was conspicuous by his absence at the forum that year.

The US has assumed the leadership role in steering the new type of Industrial Policy . President Trump 's campaign was based on the premise that as a result of globalization , American people had got sharply divided into two distinct groups--- the well off highly educated people living in thriving places and the less educated who lived in places that were left behind. He came to the conclusion that liberal trade and free flow of capital and technology, outsourcing of manufacturing facilities and tradable services to other countries, absorption of large number of migrants has made the lives of this latter group miserable. They lost their jobs but were not trained to take up alternate occupations. . He therefore introduced tariff and non tariff barriers to thwart the inroads of Chinese goods and services in the US. His migration policy was quite tough and technology transfer from and to the United States was firmly controlled.

President Biden has gone even farther and given a further impetus to Industrial policy for the US. CHIPS and Science Act 2022 gives the Government a primary role in deciding which chip makers will benefit from the funding of $ 52 billion worth of subsidies and tax credits for manufacturing firms setting up new or expanding existing operations in the US. The Act has also allocated $ 200 billion toward scientific research in AI, Robotics, Quantum computing.

Infrastructure bill has tougher BUY AMERICAN rules, provision for reindustrialization, big innovations in technologies competing with China. Foreign Direct Product Rule has also tightened export controls on technology transfer to China. Russia was cut off from the US technology supply chain globally.

Under Inflation Reduction Act, an amount of $ 400 billion would be allocated as subsidies to adopt green technologies , to boost Clean energy and reduce dependence on China for batteries for Electric Vehicles.

63 percent of investment flows in the US are subject to screening regime—up from 52 percent in 2020. 60 percent of the value of Stock markets fall under the potential review of the Committee on Foreign Investment in the US (CFIUS). US capital is not allowed to enhance the technological capabilities of the competitors. European Union (EU) is far ahead of other countries in pursuing an active Industrial policy. Germany plans to subsidize power to industries upto 80%. EU Farm subsidies amount to $ 65 billion annually in addition to hefty budgetary grants to backward regions in the member countries. Governments help companies invest in Green technologies and to cut reliance on dominant suppliers and boost industry. They have also entered into long term contracts with the firms within the Union for supply of crucial raw materials such as Lithium, Rare earths and also fixed targets for domestic industries for domestic production of Strategic technologies. According to the policy makers, Climate change, Disruptions during the COVID, Russia's invasion of Ukraine underline the need for a more interventionist state. Subsidies among the G7 countries have risen sharply form 0.6 percent of GDP in 2016 to 2 percent in 2020. Some proponents of the new Industrial Policy have justified the competition between the US and the EU as a valid tool for combating the risks of climate change which is an existential threat . These subsidies and interventions are, unlike the past, not aimed at

accelerating economic growth but protecting the future generations from calamities , disasters and disappearance . However, the export controls, screening of foreign investment, ban on transfer of technology to competing nations and relocating some industries within national jurisdictions in name of avoiding supply disruptions do smack of old protectionist tendencies.

According to the UN, more than 100 countries accounting for over 90 percent of the world's GDP have adopted formal industrial strategies. $ 371 billion have been earmarked by seven countries for Semi conductor industry. Clean energy and batteries would cost 3.2 to 4.8 percent of Global GDP.

India is offering $ 26 billion of Production linked incentives for promoting Electronics, Semi conductors, Electric Vehicles, Mobile phone manufacturing over next five years. Investment in Semi Conductors,

An IMF paper in 2022 justified the Industrial Policy by the presence of sector specific externalities where the benefits of addressing them outweigh the costs and the risks of the proposed intervention. Coordination failures and learning externalities imply that firms do not fully internalize the gain from potential activities. The emergence of new modern sectors hinges on the presence of effective government institutions, a favorable business environment and investment climate and credible macroeconomic policies. Policy failures may include a burdensome regulatory framework, high tariffs on critical inputs, an overvalued exchange rate , inadequate infrastructure or an insufficiently skilled work force.

Whether Pakistan should pursue an industrial policy or not is a question that has not yet been debated seriously .There are clear ideological divisions among those who believe that the state should have a better control over generation and allocation of resources and others who are of the view that the state should set the direction and incentives structure and let the households , private firms, businesses and farmers make the choices.

The important questions that need to be addressed are (a)what is the end goal of such a policy (b)what would be the nature of policy interventions by the state and (c) what would be the main ingredients of the policy which should be used to achieve the end goal.

The end purpose of an Industrial policy for Pakistan should be to achieve competitiveness through higher productivity which brings greater profits for entrepreneurs, higher wages and better working conditions for the workers, more tax revenues for the Government, stable prices for consumers and saving in foreign exchange as exports become competitive and production of import substitutes efficient. The following quotation by a former Prime minister of India, VP Singh very aptly captures this end goal

> " What we need is growth that falls like rain on the mountain and flows down in stream to the valleys and plains below, not growth that is like snow, which sticks to the mountain tops " .

Empirical research has provided evidence that most of the factors hindering GDP growth in Pakistan particularly in commodity producing sectors (agriculture and industry) are institutional or policy based requiring reform rather than additional financial injections. Focusing more specifically on Industry it was found that the failure to take off or stunted industrialization was due to dysfunctional markets and excessive participation of government in productive activities. A recent PIDE study concluded that the Government had a footprint of

67 percent of GDP. The declining growth in value added has been accompanied by falling productivity.

A) The prerequisites for a workable Industrial policy are political stability, sound macroeconomic policies and economic governance . Fiscal dominance which is crowding out private sector credit for fixed investment and working capital has to come to an end. The growing informalization of the economy in production and trade is a manifestation of the weakness of the state capacity to enforce the laws and rules and exercise its coercive power. Therefore, a strong state apparatus is necessary under Industrial Policy 2.0 to play an entirely different role i.e. to correct market failures , remove constraints from the way of a competitive market structure and improve allocative efficiency , eliminate policy induced distortions and perverse incentives rather than pick winners through an elaborate system of protection and subsidies. Highly protected domestic markets not only reduce the incentive to export but also penalize the economy by allowing inefficient producers to extract policy induced rents from domestic consumers . Enforcements of contracts and protection of private property rights necessitate a well functioning judicial system that adjudicates and resolve the disputes expeditiously and at affordable costs for small and medium businesses.

The nature of government interventions under the Industrial Policy 2.0 would , therefore, be to unshackle the entrepreneurial energies of the private sector (by providing a level playing field) , and to shift from resource based to technology intensive products whose demand is growing at a rapid pace in domestic and International markets. The basic thrust of the policy would be for the state to eliminate unnecessary and costly regulations and extortive taxation system ,promote research and development in productive sectors, provide skilled and trained manpower and infrastructure , and avoid distorting markets through administrated prices of inputs and output. Market structures characterized by oligopoly, monopoly, collusive practices , cartelization and other defective practices have to be cleaned up . Entry barriers for new comers as well as for scaling up the size of the operations have to be dismantled. Industries that can export or save foreign exchange , attract Foreign Direct Investment, generate employment, have strong backward and forward linkages are most likely to emerge under such a policy. . A lot of risks are too big to insure against privately.The state should step in such cases through public-private partnerships where the rewards to the society at large are enormous. .

B) The main ingredients of a forward looking Industrial policy for Pakistan ought to be:

   i. Innovation : Rapid technical change is at the heart of the new competitive scene and innovation and productivity growth are interrelated. R& D Expenditure in Pakistan was already paltry but it has declined from 0.32 percent of GDP to 0.28 percent in the last decade. Support for Scientific Research and Development in both private and public sector to alter the production structure and processes in response to changing demand patterns, preferences and technology has to be given the highest attention and resources. Institutional specialization, complementarity between University and industry, patents acquisition, and stakeholder involvement would generate beneficial results. Transition to Green Technology and Clean energy , adaptation and mitigation of climate change risks and emerging technologies such as AI, Robotics, Data analytics etc. have to be the major components of an R&D program.

Financial incentives should be given to the firms for in house R&D activities that enhance their technological capabilities and enable them to implement new innovative techniques and processes. An Innovation Development Challenge Fund can be a useful instrument for this purpose. .

ii. Institutions: Strengthen Institutions of economic governance by devolving powers, delegating decision making and decentralizing fiscal resources , giving them autonomy while holding them accountable for results. State should withdraw from running businesses and allow the private sector to compete on a level playing field. The role of the state should be that of a facilitator, enabler and promoter but also that of delivering basic public goods and services in a cost effective and efficient manner. Technology Parks, Incubation Centres, Special Economic zones can create clusters for exchange of knowledge, skills and provision of common services resulting in agglomeration economies. Narrower forms of specialization in fragmented production that now dominate global value chains have changed the dynamics of industrial and export activity.

Pakistan has to find niche products in the chain where it can compete . These clusters would also house quality testing labs, standards metrics compliance and extension services to SME suppliers and vendors . These clusters along with joint ventures between Pakistani and foreign firms can further reinforce the process of upgrading technologies, building new capabilities and finding new markets and market niches.

iii. Deregulation and Taxation: Formal industrial sector is overregulated and heavily taxed. About two thirds of taxes are collected from the Manufacturing sector which accounts for only 13 percent of GDP. The plethora of laws, rules ,regulations and No objection certificates required for compliance by the federal, Provincial and local governments –some overlapping – have stifled the entry of new comers by increasing the cost of doing business and thus retarded the forces of competition. For example, minimum tax based on turnover acts as a barrier to new entrants. As a result Pakistan has gone through Deindustrialization and the share of Manufacturing in GDP has remained stagnant. Easing the regulatory burden and lowering the tax incidence on manufacturing industries (by bringing in other sectors and firms into tax net) would allow the existing firms to expand their scale of operations and new companies to invest in activities that would become profitable. Large scale firms tend to be more productive reflecting economies of scale. Export subsidy schemes have to be rationalized to incentivize new products, sub sectors and for penetration in new markets. One way to promote consolidation, capital formation, scaling up and expansion of manufacturing sector is to remove tax on inter corporate dividends.

iv. Human Capital formation and Skilled Labour Force: Despite loud claims that Pakistan has a large pool of talent the fact is that we rank below our peers in Human Capital Index. One third of children Out of the school, alarming learning poverty, rising number of unemployed graduates , Low Female Labour Force Participation Rates, Malnutrition and Stunting and acute shortage of skilled workers demanded by the industries pose serious constraint to productivity growth. Science and Mathematics should be introduced early in the school curriculum and made mandatory for all middle and secondary school students. Technical and Vocational training institutes should be expanded and operated by the private sector. Universities should produce more STEM graduates of employable skills. Manufacturing 's growing parts in value addition are research, design, engineering, marketing and networking . Digital Economy would require a large workforce of ICT professionals.

Infrastructure: Pakistan's unending energy crisis and high end user costs have done an enormous damage to industrial growth and diversification particularly the export sector. The present model of Single Buyer-Single seller is the root cause of this recuring problem. Unless private sector_firms selected through a transparent competitive process are brought in at the retail stage of distribution of electricity and natural gas and the monopolies of DISCOs are dismantled the situation would remain precarious. There are very few countries which subsidize piped gas for households and penalize industrial units. Circular Debt would keep piling up while the rising costs to the industrial units particularly those in international trade would drive them out of business.

Labour laws : Pakistan has a youth employment problem . More than 70 labor laws on its books which , according to its own reckoning " are complex, overlapping, anomalous and at times render the subject matter difficult to understand, besides creating confusion for those who deal with them. " Despite the passage of a dozen years the mission of consolidating and simplifying these laws into five core laws has been deflected by the power tussle between the Federal and the Provincial Governments. Despite such abundance of laws and regulations, contract, casual , temporary and daily wage modes of employment have become the accepted norms in the manufacturing industries. Formal and wage employment in manufacturing sector has remained stagnant . These laws also encourage firms to remain small and not scale up their size of operations. Consequently, the skill level and the average schooling are low, on the job training is missing , females are not found for dexterous jobs for which they are well suited , wages fall below a decent living benchmark, and overall labor productivity lags behind that of the peer countries. Only 7 percent of firms in Pakistan offer formal training to their workers compared to 85 percent in China and 50 percent in Viet Nam. The firms which provide formal training are found to have much higher productivity. It must be realized that a single rupee of investment in skills and improved efficiency of the labor force would have on average at least 30 to 40 percent additional returns that can be distributed in the ratio of 75:25 between the owners and the workers. Labor productivity is thus a viable avenue for profit maximization, capital formation for expansion and investment, new job creation, awarding decent living wages and increasing global competitiveness .

To sum up, Resurgence of Industrialization is needed for increasing exports, stimulating GDP growth, adopting technology, creating jobs and developing skilled work force. Industrial Policy has to be ensconced in the overall growth strategy of the country with adequate social safety nets for those likely to lose out from the pursuit of this policy. Pakistan's journey towards Industrialization which has been off the track for past few decades can be put back on the rails by not relying on the contours of Industrial Policy 1.0 which has been discredited but by a new policy in which "technological competence, skills, work discipline and trainability, competitive supplier clusters , strong support institutions, good infrastructure and well honed administrative capabilities " are developed, nurtured and promoted and the rent seeking subsidies and protection to specific firms and industry or sector are shunned.. Industrial Policy 1.0 was supposed to benefit consumers, producers and others in the economic chain. The concessions and subsidies in the name of "infant Industry" have continued unabated as there were no benchmarks set to evaluate performance and whether the intended goal has been achieved or not. The policy had no built in sunset clause and some of the industries are enjoying the benefits even after a lapse of several decades. As distortions were introduced through administered input and output prices , firm, subsector, industry specific differential concessions, the resultant manipulation, collusion , speculation, gaming cumulating to excessive rent seeking have failed to produce the desired results . A wedge is created between 'observed prices' and their fundamental determinants . Investors shy away from productive activities and shift to unproductive activities where quick, short term gains can be achieved in an environment of market distortions and imperfections. Private profits keep accumulating at the cost of benefits to the society. Overall, low economic growth coexists with excessive returns earned by selected market players. Industrial Policy 1.0 was therefore bound to fail sooner or later. Governments were accused of indulging in crony capitalism through concessions, exemptions, bank loans, preferential allocation of land at below market prices, and import licenses to selected few. The beneficiaries of these favors were political supporters, friends and family members or in blatant exchange of pecuniary benefits to those administering the Policy.

Governments are also not very good at identifying the sectors which should be promoted. It is only the businesses themselves with sharp eye on markets , relative returns to investment and taking account of the dynamic comparative advantage who can undertake that task. A growing source of capital flows for investment is the Sovereign Wealth and Private Equity Funds. Between 2018-2022 the Emirati funds and firms invested $ 34 billion in India. Instead of asking for deposits for boosting the Central bank reserves and other forms of aid which is indeed demeaning for a country like ours, the private sector under the Industrial Policy 2.0 should be able to tap into these funds as the recent results indicate that the relative returns to corporates in Pakistan are still quite attractive despite the difficult macroeconomic situation. Saudi Arabia has also committed a substantial amount for investment in Egypt. Had Pakistan maintained its Exports to GDP ratio at the level of 16 percent as in 1999 the total merchandise exports would have reached $ 56 billion in 2022 i.e. 75 percent higher than $ 32 billion actually realized and the current account deficit with even higher level of imports would have been manageable. Import duties on intermediates and final consumer goods have to be brought at par with other competing nations as they act as a tax on exports and increase the profitability of selling in the domestic markets. . Pakistani publicly listed exporting firms are found to be on average 20 percent more productive than the domestic oriented firms (World Bank) . According to a 2018 report by Pakistan Business Council the manufacturing sectors they recommend for potential value addition and export Diversification are Automobile, Electronics, Engineering and Food Processing. For Import substitution the sectors chosen are Steel and iron and Petrochemicals. Some other business groups would like to have upgradation and establishment of new oil refineries which can also lead towards Petrochemicals chain. On the face of it, these appear quite reasonable but detailed feasibility studies have to be carried out by the potential investors themselves . Government can act as a facilitator, enabler , provider of level playing field and problem solver but not a direct intervener in investment choices. Besides maintaining political stability, pursuing sound macroeconomic policies , improving delivery of public goods and services through devolution, the Government has to curtail its claims and pave the way for access to bank credit and capital markets by the private sector for increased investment in productive sectors such as Agriculture and Manufacturing. Broadening of Tax net as well as expenditure rationalization would not only reduce the budgetary deficit requirements but also help the private sector by lowering tax incidence while providing complementary public investment. Old habits die hard but unless we have a mind set change , a serious political commitment and earnestly implement the required changes , we would end up facing one crisis to another every few years and keep knocking at the doors of the IMF and our friends. Industrial Policy 2.0 may also meet the same fate as its predecessor.

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