

Role of  
industrialization in  
economic  
development  
economics essay



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## **INTRODUCTION**

Industrialization is regarded essential for rapid development of the country since industrial revolution. The countries which merely rely on agriculture have remained under developed, whereas nations which developed industries achieved high rates of development. The advanced countries encourage industrialization on large scale and transferred advantages to agriculture. They achieved balance of growth in various sectors of economy. Pakistan at the time of partition in 1947 has negligible industrial base. The government has been utilizing all available resources for rapid development of the manufacturing sector. We examine the industrial performance as follows:

### **From 1947 to 1950**

In 1947, in the West Pakistan the major product was cotton but there was no big factory to process and manufacture the cotton whereas East Pakistan was the main producer and supplier of jute. Out of 921 Pakistan only got 34 industries. Government of Pakistan being aware of the importance of industrialization called an industrial conference in dec. 1947. The conference recommended the establishment of industries which used locally produced raw material like jute, cotton and skin. The private sector was encouraged to establish industries. For the implementation of above a development board and Pakistan industrial and Credit Corporation were established in 1948. The contribution of industrial sector to GDP was 6.9% in 1950.

## **From 1950 to 1960**

The private sector did not invest in heavy industries due to lack of capital, technical knowhow and absence of entrepreneurship. The government took initiative and established PIDC in 1952. The major investment of PIDC was in paper and paperboard, cement, fertilizer, jute mills and suigas pipelines. The contribution of industrial sector to GDP rose from 9. 7% to 11. 9%.

## **From 1960 to 1970**

This year covers 2nd five and 3rd five year plan. In 2nd five year plan 22. 2% of the total outlay was for the growth of industrial sector. The country achieved self sufficiency in essential consumer goods. The contribution of industrial sector to GNP went up to 11. 8% from 1960-65. The 3rd five year plan could achieve a partial success due to war with India in 1965. The growth rate was 7. 8% against the target plan of 10%.

## **Growth in 1970s**

The industrial performance of production, growth and exports was disappointing from 1971 to 1977. The main reason were separation of east Pakistan, suspension of foreign aid, fall in exports due to loss of market ( east Pakistan), devaluation of rupee up to 131%, nationalization of industries, labor unrest, recession in world markets and reduction in investment incentives. The annual growth rate fell up to 2. 8%.

## **Growth from 1977 onward**

The government took number of initiatives to revise the economy. Some industries were denationalized and private sector was encouraged to invest. The growth rate was 5. 7% in 1989-90.

## **Current Growth**

According to the economic survey of Pakistan, 2009-2010, manufacturing accounts 18.5% of GDP and 13% of total employment. Large scale manufacturing and small scale manufacturing accounts 12.2% and 4.9% of total GDP respectively.

## **Manufacturing Sector in Regional Countries**

### **Role of industrialization in economic development**

The role of industrial sector is summarized as follows:

In industrialization there is optimum utilization of scarce resources. The quality and quantity of manufacturing sector increase. It increases the national income of the country.

It increases the production of goods and services. The labor receives higher wages. The income of workers increase and their living standard also improves

When industrial production increases that increases exports and revenues of the government.

It generates new employment opportunities.

Industrialization provides machinery like tractors, threshers, harvesters and spray machines to increase the production of agriculture sector.

As the industrial sector expands, its production increases and cost of production decreases. The quality of products improved due to technology

Industrialization increases the supply of goods for internal and external markets. The government receives revenue in the form of custom and excise duties, sales and income taxes from the industrialists due to which government revenue increases.

## **Causes of industrial backwardness in Pakistan**

The main causes of industrial backwardness are divided as follows:

### **Historical Causes**

The British collected raw material for their industries from subcontinent on the one hand, on the oilier; they captured this area for final products. So no industry in this area.

The areas with Muslim majority were kept backward to favor Hindus.

The few industries, which were setup in India, were in coastal cities of Calcutta, madras and Bombay.

Raw material and skilled labor were not available in the area that is now in Pakistan.

### **Economic Causes**

The infrastructure required for the growth of industries is inadequate. For the foster mobility of labor, capital, transport and communication facilities are in sufficient. It is obstructing expansion of industries in Pakistan.

The amount if capital required in the capital intensive industries like steel, iron, chemical and automobiles quite high. Huge capital is also required to establish and expand industries like textile, carpet, sugar and paper etc.

Most of exports are comprised of raw material, while our main imports are machinery, petrol which requires heavy foreign exchange. Due to shortage of foreign exchange, less imports of machinery, this leads to less development of industries.

Now days due to inflation people have low level of income that's why they demand less industrial goods, it obstructs industrial development.

There is also shortage of power like electricity and gas due to which many industries are shutting down.

There is less foreign investment in the country due to terrorism which is also the main hurdle in industrial development.

Due to recent flood, the economy of the country is going worst. Therefore people do not take risk to invest in Pakistan.

## **Political Causes**

There have been frequent changes in government since 1947 in Pakistan due to which local and foreign investors hesitate to invest in long term projects.

Kashmir issue has been a bone of contention between Pakistan and India since independence. People remain frightened about the war between both countries. This situation leads low investment.

The government of Pakistan nationalized industrial sector in 1970s. People still fear that the government may once again nationalize the economy.

Therefore they invest less.

## **Social and Geographical Causes**

On the one hand there is less awareness to invest in large scale industries due to lack of education and information. On the other hand the capital intensive industries require highly qualified professionals which are in lack of Pakistan. So low industrial development.

Pakistan has extreme climate. Sometimes we have drought and other time heavy rain and flood. Moreover most of the land is covered with mountains and deserts.

## **PRINCIPAL INDUSTRIES OF PAKISTAN**

The principal industries of Pakistan are as follows:

### **Textile Industry**

It is the most important and largest industry of the economy of Pakistan. Pakistan received 17 textile units in 1947. The industry is facing problem like shortage of raw material, tough competition in international market due to domestic high prices.

### **Sugar Industry**

In 1947, Pakistan received two sugar mills. Now we have 78 sugar industries across the country. The industry is producing 2.4mn tones of sugar against 2.9mn tones of demand. Pakistan is importing sugar since last few years. The production of sugar can be increased by giving incentives to farmers.

### **Chemical Industry**

There was hardly any chemical industry in 1947. Now Pakistan has 12 units but this industry is not meeting domestic requirement of chemicals.

## **Fertilizers Industry**

Fertilizer plays an important role in increasing agriculture production. At present 10 units are producing different types of fertilizers which meets 70% of the domestic requirement. 30% is imported from Germany, UK, USA and Norway.

## **Cement Industry**

There are 25 cement plants in Pakistan. The installed capacity of these plants is 13mn tones per annum. This industry is based on local raw material.

## **Jute Industry**

At the time of independence there was not a single unit of jute in Pakistan. At present 12 units are working in Pakistan but they are not meeting domestic requirements. Large quantity is imported from china and Bangladesh.

## **Engineering Goods Industry**

This industry got importance in 3rd five year plan. Now there are four industries like HMC Taxila, Heavy Foundry Taxila, Pakistan Machine Tool Factory Landhi, and Pakistan Steel Mills Karachi.

## **Pakistan Steel Mills Corporation**

The mill was set with the total cost of 25. 550mn with the help of Russia. Its productive capacity is 1. 1mn tones of raw steel per annum. Now a day it is going down due to corruption and mismanagement.



## **Cigarette Industry**

At present Pakistan has 22 factories producing cigarette at Jhelum, Akora Khattak. The raw tobacco used in manufacturing is produced domestically.

## **PERFORMANCE OF PUBLIC INDUSTRIAL SECTOR**

The performance of public industrial sector is the role of PIDC, so we review the role of PIDC.

### **Role of PIDC:**

Pakistan industrial development corporation (PIDC) was established in 1952. It was the only public sector involved in manufacturing. It established industries in backward areas, created employment opportunities and reduced regional disparities. By June 1972, it had established 60 industrial projects. The nationalization of industries under the economic reforms order affected the performance of PIDC. A number of important and profit yielding projects were transferred to other corporations under the Presidential Ordinance No. v of 1974. PIDC was left with only 8 projects out of 60, which were not profit making.

## **NATIONALIZATION OF INDUSTRIES**

The government of Pakistan under the economic reforms order, 1972 nationalized 32 private industries. The 52 projects already under taken by PIDC and the 32 nationalized units were regrouped on functional basis and laced under 12 corporations. The corporations were:

Federal chemical and ceramic corporation (FCCP)

Federal light engineering corporation (FLEC)

National design and industrial services corporation (NDISC)

State heavy engineering and machine tools corporation (SHEMTC)

Pak tractor corporation (PTC)

Pak automobile corporation (PAC)

National fertilizer corporation of Pakistan (NFPC)

State electrical corporation (SEC)

Pakistan industrial development corporation (PIDC)

Pak steel mills corporation (PSMC)

State cement corporation of Pakistan (SCCP)

State petroleum refinery and petrochemical corporation (SPRPC)

In 1974, PTC and SEC were merged in PACO and the number of corporations was decreased from 12 to 10. Later on FLEC, NDISC and SHEMTC were merged into state engineering corporation (SEC). The number of corporation was decreased from 10 to 8.

## **Reasons of Nationalization failure**

The public manufacturing sector was burdened with a number of conflicting tasks and objectives which reduced its efficiency.

The corporations were over staffed and were mostly managed by non-professionals persons.

The labor unrest reduced performance.

The skilled personnel migrated to Gulf States and caused shortage of skilled persons.

The prices of raw material increased due to decline in production of the corporations on account of flood and untimely rains.

The price of petroleum products increased and raised the cost of production.

## **PRIVATIZATION OF SOEs IN PAKISTAN**

In the first four decades the government policy about the private and public sector has not clear. In 1988, the government issued disinvestment ordinance to adopt the policy of privatization. The government's privatization policy is to off-load the public sector; the process would be carried out in three phases. Different institutions will be sold to private sector and the revenue generated will generally be used for debt retirement.

### **Meaning of Privatization**

“ A process of transferring state owned enterprises to the private sector.”

### **Objectives of Privatization**

Minimizing budgetary support/deficit

Sale of shares of enterprises to fill budgetary gap

Incentives for the workers for efficient work

Developing share market

Provision of share ownership to workers or employees

Insulating the economy from political interference

Achieving rapid industrialization

## **Methodology of Privatization**

The privatization can be undertaken in the following ways:

Sale of individual SOEs by inviting bids from the private sector

Sale of shares of SOEs through stock exchange

Encouraging employees to make management groups and purchase enterprises

Encouraging prospective investors to form modaraba companies to purchase the shares of SOEs

Entering into lease management contracts with employees for a specific period to enable them to buy out units

## **Privatization of SOEs in Pakistan**

The government of Gen. Zia-UI-Haq on 16th July 1988 issued Disinvestment Ordinance and a National Disinvestment Authority was created under the chairmanship of

Aziz Zulfikar. A privatization commission was formed on July 22, 1991 to formulate recommendations for privatization and deregulation. In the initial phase MCB, ABL had been privatized.

## **IMPORTANCE OF FOREIGN INVESTMENT IN INDUSTRIAL DEVELOPMENT**

The policy of privatization, deregulation and liberalization has greatly widened the foreign investment in the country. The government has taken several measures to increase the flow of foreign private investment. The foreigners can now avail monetary and fiscal concessions equally with the local investors. They can invest in the fields of their choice like power generation, petro-chemical petroleum gas fertilizers, hi tech industries, agro based industries and export oriented industries.

### **Incentives to Foreign Investors**

Foreign exchange controls have been relaxed for foreign investors.

Foreign investors can participate in local projects on equality basis.

Ceiling on payment of royalties abolished.

No requirement of obtaining NOC from provincial government or locating the projects anywhere in the country except notified negative areas.

## **SOURCES OF INDUSTRIAL FINANCE**

The main sources of industrial finance are:

Industrial Development Bank of Pakistan

Investment Corporation of Pakistan

National Investment Trust

Equity Participation Fund

Bankers Equity Fund

Modarabas, Leasing Companies

## **COTTAGE AND SMALL SCALE INDUSTRY**

The cottage and small scale industry has a great significance for a developing country. It forms an important part of the manufacturing sector. It contributes 5% to GDP and employs 80% of the labor force. Its share in manufacturing sector export is about 30% in Pakistan.

### **Cottage Industry**

The industry which is carried on in the home of the artisan is known as cottage industry. He is usually assisted in his work by the members of his family and the job may be whole time or part time. E. g. wood work, handmade carpets, toys etc.

### **Small Scale Industry**

The firms employing less than 10 persons are classified as small scale industries in the national accounts and its fixed assets do not exceed Rs. 2mn in Pakistan.

## **CONCLUSION**

We can conclude that manufacturing is the third sector of our economy and it is the backbone of any country. It plays a very important role in the economic development of a country. Pakistan has been a backward country in industrial sector due to different historic, political and economic causes. For the revival and growth of the industrial sector, these problems should be solved. The law and order situation must be improved. The security of capital

must be assured and the degree of bureaucratic control to be minimized. A clear cut policy should be chalked out for the local and foreign investors. The industrial growth can further be accelerated by ring sick industrial units into operation, installing new factories and providing maximum incentives to the working community.