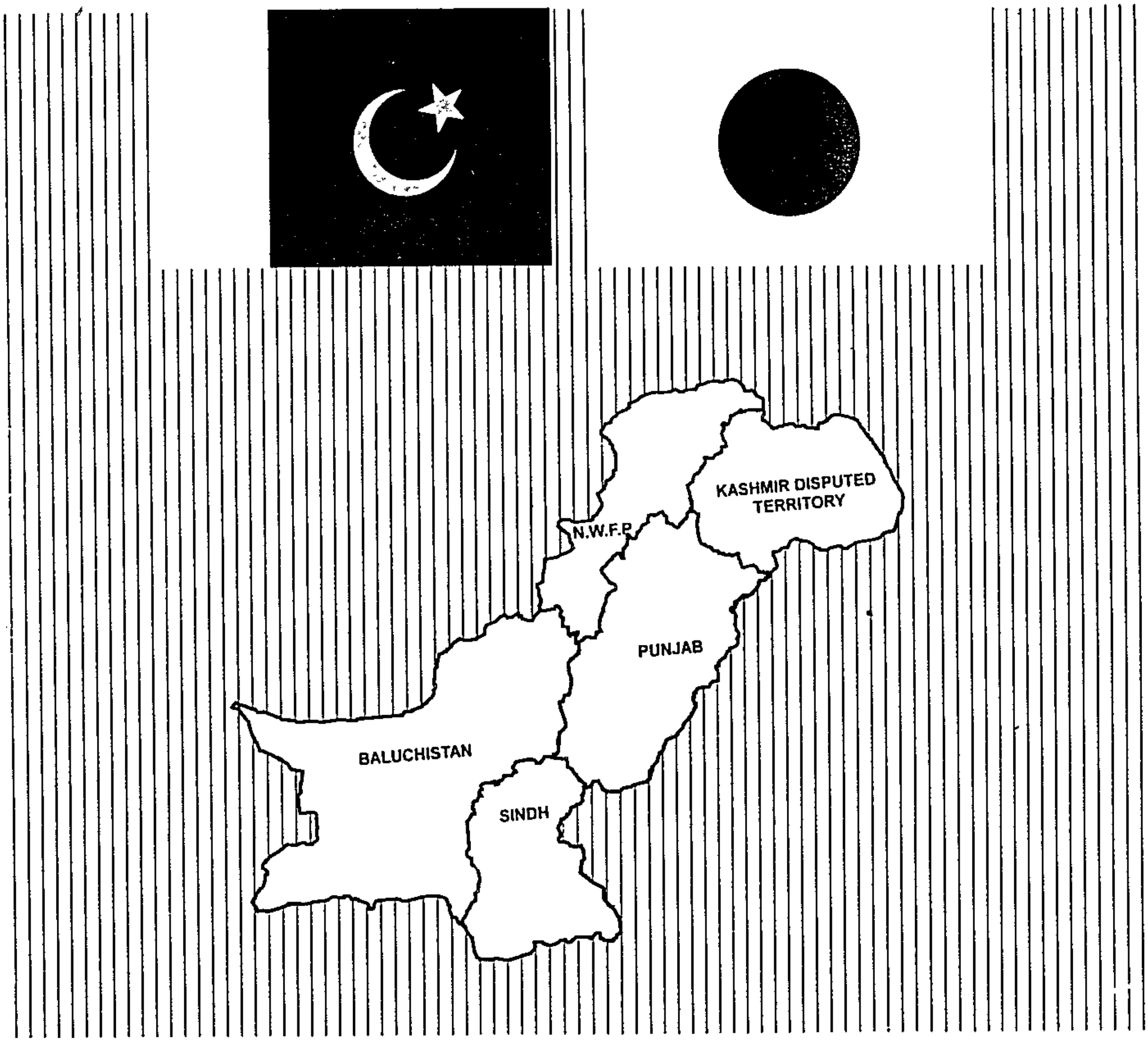
DEVELOPMENT STUDY ON INDUSTRIAL DEVELOPMENT IN PAKISTAN

April 1996



JAPAN INTERNATIONAL COOPERATION AGENCY

PREPARED BY:

National Management Consultants (Pvt) Ltd.

DEVELOPMENT STUDY
ON
INDUSTRIAL DEVELOPMENT IN PAKISTAN

April 23, 1996

Submitted to

JAPAN INTERNATIONAL COOPERATION AGENCY
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ISLAMABAD.

Submitted by

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PREFACE

Japan International Cooperation Agency (JICA) has assigned National Management Consultants (Pvt.) Ltd. to undertake a Development Study on Industrial Development in Pakistan.

We are thankful to **JICA** for assigning us this important study. We would like thank **Mr. Hiroshi Shiono**, Assistant Resident Representative and **Mr. Sohail Ahmad**, Programme Officer, in particular for their kind support.

The consultants began work under the defined Terms of Reference (TORs) of this study in February 1996. This report provides information on the industrial development in Pakistan. It gives the historical data on the composition and development of the industrial sub-sectors. GoPs future plans in the sector are also studied and an account of the institutional framework in both public and private industrial sectors is given.

We would like to thank all the persons/experts we interviewed for their valuable time and information that made this report possible. These include the relevant officials from United Nations Industrial Development Organization, United Nations Development Programme, Ministry of Science and Technology, Ministry of Industries, Pakistan Council for Scientific and Industrial Research, National Physical Standards Laboratory, Pakistan Standards Institute, Pakistan Cotton Standards Institute, Board of Investments, Export Promotion Bureau, Export Promotion Zone Authority, Pakistan Investment Development Corporation, Sarhad Development Authority, Balochistan Development Authority, Punjab Industrial Development Board, Chambers of Commerce and Industries, Trade Associations, Economists, Industrialists etc.

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April 23, 1996

EXECUTIVE SUMMARY

CHAPTER 1: INTRODUCTION

The Government of Pakistan (GOP) for the last 5-6 years has been promoting industrial development, especially in the export oriented industries. It has set a target of 9.9 percent annual growth for the manufacturing sector in the Eighth Five Year Plan (1993-98). In order to achieve this target, GOP has formulated strategies and has introduced several policies for attracting foreign investment. These include:

- Deregulation and liberalization of the economy;
- Establishment of the Board of Investment;
- Setting up of Export Processing Zone and Special Industrial Zones;
- Establishment of the Privatization Commission to privatize public companies;
- Establishment of the Export Promotion Council and the Export Promotion Bureau to formulate the new export policy measures and promote industrial quality standards; etc.

Japan International Cooperation Agency (JICA) has commissioned **National Management Consultants (Pvt.) Ltd.(NMC)** to conduct a Developn.ent Study on the industrial development in Pakistan. "**The primary objective of the study is to obtain an overall picture of industrial development in Pakistan and identify some possible fields or sectors where foreign assistance, economic or technical, is required to implement the government's development strategies.**"

The study lists the Government's industrial development strategies focusing on the following areas:

- Establishment of industrial promotional areas; and
- Promotion of industrial quality control and standards.

A seven-step methodology was worked out by NMC, which was discussed and agreed to in a meeting held on the 25th of January 1996 at JICA office in Islamabad.

CHAPTER 2: PAKISTAN'S INDUSTRIAL POLICY - A SECTORAL PERSPECTIVE

At the time of independence, Pakistan had virtually no industry. In 1949-50, two years after independence, the contribution of manufacturing sector GNP was 7%, mostly from small industries. The contribution of large scale industries to GNP was only 1.5%. In 1994-95 manufacturing contributed to 18.5 of the GDP. The ratio of the large-scale to small-scale manufacturing has reversed form 30:70 to 70:30 in the past five decades.

The First Plan (1955-60) and the Second Plan (1960-65) refined the concept and established the institutions through which planning could be effectively implemented The First Plan was instrumental in creating some of the basic infrastructure. The Second Plan accelerated the pace of development and led to rapid increase in national and per capita incomes. As a result the large scale industry grew at 15 % per year and its contribution grew to 15%. Manufacturing contributed to 14% of the GDP and there was a significant increase in the production of basic consumer goods.

The Third Five Year Plan (1965 - 70) shifted the emphasis from consumer good industry to a capital goods industry and resulted in a large investments in the private sector. In 1972 a major portion of Pakistan's major basic and large scale industry was nationalized (under ERO 1972). This included food production, banks, life insurance, and all large scale industry including iron and steel, automobiles, chemicals, light and heavy engineering, fertilizer, cement, vegetable, oils, etc. The investments shifted from the private to public sector.

The Fifth Five Year Plan (1978 - 83) was a difficult period for Pakistan's industry. It achieved an annual growth rate of 9%. In the Sixth Five Year Plan (1983-88) the highest priority was accorded to steel based engineering goods industry. Emphasis was also placed to develop a mineral based industry. The emphasis of the Seventh Five Year Plan (1988-93) was establishment of more efficient and sophisticated industries with a strong export emphasis.

The Eighth Plan (1993-98) quotes manufacturing as the main vehicle of economic growth, employment generation, economic diversification, poverty alleviation and export acceleration. The targeted growth rate for the sector is 9.9 percent, where large scale manufacturing is expected to grow by 10.5 percent and small scale by 8.4 percent per annum. Such growth is likely to generate 680,000 additional jobs in the five years period.

It has been planned to provide incentives to private sector foreign investment in thermal & hydel power generation, exploration of minerals, oil and gas. For the promotion of private industrial investment, development strategies include establishment of special industrial zones, export processing zones, loaning facilities through DFIs, easing conditions for import of raw material, spares and equipment and training in export promotion and quality improvements. Encouragement is promised for private investment in expansion and modernization of fertilizers, basic chemicals, petroleum refining, auto-assembly, building materials, engineering and electronics.

CHAPTER 3: INSTITUTIONAL FRAMEWORK FOR INDUSTRIAL DEVELOPMENT

There are a number of institutions involved from various levels of the government that have direct bearing/relations with the industrial sector. The prominent government institutions are:

- Federal Ministry of Industries & Production;
- The provincial Department of Industries;
- The Board of Investment at the federal level
- The provincial Investment Committees;
- The Federal Export Promotion Bureau;
- The Federal Export Processing Zones Authority;
- The Federal Special Industrial Zones;
- The Provincial Industrial Estates; and
- The government owned commercial banks and DFIs, and

The prominent private sector institutions that are a vital part of the institutional structure of Pakistan's industry are:

- The Federation of Pakistan Chambers of Commerce & Industry;
- The Local Level Chambers of Commerce & Industry
- The Sectoral Industry Associations
- The private commercial and investment banks, etc.

CHAPTER 4: INDUSTRIAL QUALITY CONTROL - STATUS AND REQUIREMENTS

The Senate - the highest legislative body of the Country has recently approved the bill to formulate the **Pakistan Standards and Quality Control Authority (PSQCA)** which will work under the Ministry of Science and Technology. **PSQCA** will be formed by the merger of **Pakistan Standards Institute (PSI)** and **Central Testing Laboratories**

CTLs. The **National Physical Standards Laboratory (NPSL)** already works under the Ministry. This has been done in an effort to consolidate the governments resources and to create a body that can single handedly promote quality standards in Pakistan.

The activities of the **PSI** include preparation, printing, sale and implementation of Pakistan Standards, registration of inspection agencies, introduction of the **PSI** system, collaboration with other national and international standards organizations, and dissemination of information and knowledge about standardization and quality control.

The **CTLs** perform testing in the following six areas:

- Chemicals:
- Physical and Engineering:
- Electrical:
- Building Materials:
- Textiles: and
- Paper Products

With rapid globalization of the international market the need for international standards has greatly risen. It is feared that the European Union will require ISO 9000 certification standards for the import of manufactured goods into their common market. The ISO 9000 standards are widely recognized and are increasingly being used as a requirement for filling out supply tenders world wide. In response to these new requirements only 14 companies have acquired the certification. The main reason for the sluggish performance are:

- Lack of information and the understanding needed for these requirements.
- The high cost of acquiring certification as no local body confers the certification or carries out the audits.

CHAPTER 5: FOREIGN FUNDED PROJECTS

Foreign assistance comes from three major sources. These are Aid-to-Pakistan Consortium (83%), non-consortium countries (8%) and Islamic countries (5%). The total project aid increased by 52% to US $ 2,785 millions in 1994-95.

There are about 40 foreign funded projects in the industrial sector (Annexure 8). The areas of assistance range from policy planning, technological research, support services to specific projects in small, medium and large scale industries in different manufacturing sub-sectors. The number of such specific projects is, however, very small. The large and medium scale industry is especially neglected when it comes to foreign assistance.

RECOMMENDATIONS

In view of the need of quality control, standards, and testing requirements for Pakistani products the consultants have prepared a list of projects that could best help Pakistan's industries. Instead of using a top down approach, it is proposed that necessary assistance be given directly to where it is needed the most.

Before a project is picked up a detailed study needs to be done to assess its viability, benefits, cost etc. The recommended projects are as follows:

1. CREATION OF GRADING LABORATORIES FOR RAW MATERIALS

OBJECTIVE:	To grade raw materials for export and use in the local industry.
SCOPE:	Such laboratories could be set up for other raw materials including: – Leather (Hides and Skins) – Wool – Manmade Fibers – Rice – Minerals – Wood – Jewels/gems etc.
ADVANTAGES:	□ Exporters can fetch better prices for higher quality exports. □ Producers will have an incentive to produce better quality materials □ Users of the materials will be able to control their production
POSSIBLE PARTNERS:	Respective Trade and Industry Associations Chambers of Commerce & Industries Training Institutes set up by the Export Development Fund
DURATION:	2 years
LOCATION:	Selected Industrial Clusters

2. TRAINING PROGRAMS IN QUALITY CONTROL

OBJECTIVE:	To promote quality control in specific sub-sectors.
SCOPE:	To give industry specific quality control training to several industries These training programs shall include both the management and supervisors of the production facilities.
ADVANTAGES:	☐ Manufacturer can learn methods to improve quality, as such training is not available in the country. ☐ The information and training will be given directly to the decision makers and controllers of the production process
POSSIBLE PARTNERS:	Respective Trade and Industry Associations Chambers of Commerce & Industries Training Institutes set up by the Export Development Fund
DURATION:	3-5 years
LOCATION:	Selected Industrial Clusters

3. MATERIAL TESTING LABS AND QUALITY TESTING SYSTEM

OBJECTIVE:	To set up material testing labs.
SCOPE:	Set up material testing laboratories for selected sub sectors where these laboratories are required for e.g. Cutlery, Surgical Instruments, and light engineering.
ADVANTAGES:	☐ Producers will have an incentive to produce better quality materials ☐ Users of the materials will be able to control their production ☐ Manufacturers of these raw materials will be able to produce better quality.
POSSIBLE PARTNERS:	Respective Trade and Industry Associations Chambers of Commerce & industries Training Institutes set up by the Export Development Fund
DURATION:	3-4 years
LOCATION:	Industrial Clusters depending on the selected industry.

4 SETTING UP OF COMMON FACILITY CENTERS FOR MANUFACTUTRING SUB-SECTORS

OBJECTIVE:	To set up common facility centers for various industrial sub-sectors.
SCOPE:	To carry out a study to identify sub sectors where these centers are required and to determine what facilities need to be provided.
ADVANTAGES:	☐ Producers can collectively use facilities that they could not afford individually. ☐ Producers will have a place to address their common problems.
POSSIBLE PARTNERS:	Respective Trade and Industry Associations Chambers of Commerce & industries Training Institutes set up by the Export Promotion Fund
DURATION:	2 years
LOCATION:	Industrial Clusters

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LIST OF ABBREVIATIONS

BEL:	Bankers Equity Limited.
CTL:	Central Testing Laboratory.
EPB:	Export Promotion Bureau.
EPZ:	Export Processing Zone.
FPCCI:	Federation Pakistan Chambers of Commerce and Industry.
GDP:	Gross Domestic Product.
GOP:	Government of Pakistan..
IEC:	International Electornical Commission.
ISO:	International Standard Organization.
JICA:	Japan International Cooperation Agency.
KCCI:	Karachi Chamber of Commerce and Industry.
KEPZ:	Karachi Export Processing Zone.
KESC:	Karachi Electric Supply Corporation.
LCCI:	Lahore Chamber of Commerce and Industry.
LCD:	Liquid Crystal Display.
LED:	Light Emitting Diode.
MOC:	Ministry of Commerce
MOIP:	Ministry of Industries and Production
MOS&T:	Ministry of Science & Technology
NPSL:	National Physical Standard Laboratory .
OIML:	Organization Internationale De Metrologie Legale.
PICIC:	Pakistan Industrial Credit and Investment Corporation.
PSI:	Pakistan Standard Institute.
PVC:	Poly Vinyl Chloride.
RCCI:	Rawalpindi Chamber of Commerce and Industry.
R & D:	Research and Development.
RMR:	Raw Material Replenishment.
SCCI:	Sarhad Chamber of Commerce and Industry.
S&T:	Science and Technology
SME:	Small and Medium Enterprises.
TDRC:	Textile Development Research Council.
UNIDO:	United Nation Industrial Development Organization.
WAPDA:	Water And Power Development Authority.

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

The Government of Pakistan (GOP) for the last 5-6 years has been promoting industrial development, especially in the export oriented industries. It has set a target of 9.9 percent annual growth for the manufacturing sector in the Eighth Five Year Plan (1993-98). In order to achieve this target, GOP has formulated strategies and has introduced several policies for attracting foreign investment. These include:

- Deregulation and liberalization of the economy;
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- Setting up of Export Processing Zone and Special Industrial Zones;
- Establishment of the Privatization Commission to privatize public companies;
- Establishment of the Export Promotion Council and the Export Promotion Bureau to formulate the new export policy measures and promote industrial quality standards; etc.

1.2 OBJECTIVE AND SCOPE OF THE STUDY

As per the Terms of Reference of the study issued by JICA, "**The primary objective of the study is to obtain an overall picture of industrial development in Pakistan and identify some possible fields or sectors where foreign assistance, economic or technical, is required to implement the government's development strategies.**"

The study lists the Government's industrial development strategies focusing on the following areas:

- Establishment of industrial promotional areas; and
- Promotion of industrial quality control and standards.

The study attempts to define the present status of each strategy and the plan under which it falls. It also identifies bottlenecks or constraints in the implementation of these strategies and identifies projects in which foreign assistance can play a significant role in Pakistan's industrial development. The **Terms of Reference** issued by JICA are enclosed at **Annexure 1.**

1.3 METHODOLOGY AND APPROACH

The methodology used by the Consultants in preparing this report closely follows the approach described in the Technical Proposal for this assignment. Chart 1-1 shows the same and the following sections give a brief description of the steps used.

1.3.1 STEP 1: ORIENTATION

A kick-off meeting was held with JICA officials on 25th January in order to communicate the consultant's understanding of the assignment and seek clarification on various aspects of the study. Detailed scope of work was discussed. The proposed table of content for the study was presented and agreed that NMC will submit the Draft Final Report (DFR) by 31 March 1996.

1.3.2 STEP 2: DATA ACQUISITION PLAN

A detailed data collection plan was developed for the internal use of the consulting team. The plan identified specific requirements and sources for primary and secondary data, time schedules and responsibilities for data collection. Logistics and facilitation needs for the execution of the data acquisition plan were also identified.

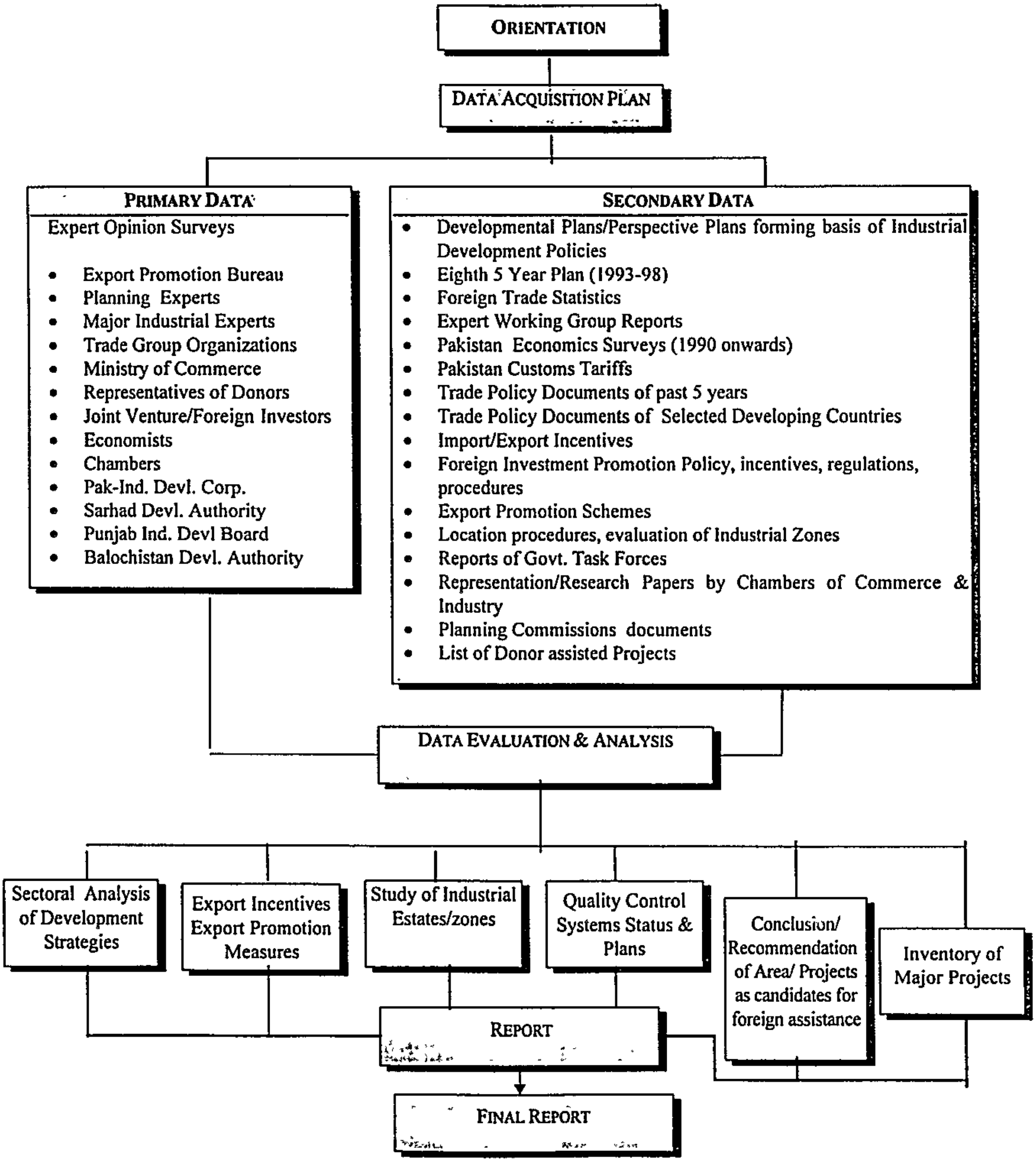
1.3.3 STEP 3: SECONDARY DATA COLLECTION

The consultants obtained and studied data from various sources. These included:

- Perspective Plans (1988-2008) the basis of development Policies;
- Eighth Five Year Plan (1993-98);
- Foreign Trade Statistics;
- Expert Working Group Reports
- Annual Economics Surveys (since 1990);
- Pakistan Customs/Import Tariffs;
- Trade Policy Documents of past 5 years
- Foreign Investment Promotion Policy, incentives, regulations, procedures;

CHART 1-1

ASSIGNMENT METHODOLOGY



- Export Promotion Schemes;
- Location procedures, evaluation of Industrial Zones;
- Reports of Govt. Task Forces;
- Representation/Research Papers by Chambers of Commerce & Industry;
- Trade Policy Documents of Selected Developing Countries;
- Import/Export Incentives;
- Planning Commissions documents;
- List of Donor assisted Projects; and
- Foreign trade Statistics;

1.3.4 STEP 4: PRIMARY DATA COLLECTION

A series of one-to-one discussions were held with about 20 trade and industry representatives, government officials, exporters/manufacturers' associations, foreign investors as well as expert opinion surveys of:

- Export Promotion Bureau;
- Planning Experts;
- Major Industrial Experts;
- Trade Group Organizations;
- Ministry of Commerce;
- Representatives of Donors;
- Joint Venture/Foreign Investors;
- Economists;
- Chambers;
- Pakistan Industrial Development Corporation;
- Sarhad Development Authority;
- Punjab Industrial Development Board; and
- Balochistan Development Authority.

1.3.5 STEP 5: DATA EVALUATION & ANALYSIS

Data and information collected was studied and analyzed in the context of the following modules:

1.3.5.1 **MODULE 1: Background and Sectoral Analysis of Development Strategies:** A discussion on perspective plans for industries, sector wise status and current policies for sector development, including institutional building measures was carried out.

1.3.5.2 **MODULE 2: Review of Export Promotion Schemes:** A critical examination of measures identified/taken for export promotion and their impacts was made.

1.3.5.3 **MODULE 3: Study of Industrial/Export Processing Zones:** A history of all such industrial estates in the four provinces; the fiscal and administrative framework; management; successes, failure and issues were analyzed.

1.3.5.4 **MODULE 4: Quality Control Systems:** Existing standards, control of procedures and current/future plans were studied. Gaps were identified in requirements and measures implemented.

1.3.5.5 **MODULE 5: Inventory of Major Donor Assisted Projects:** The UNDP prepared listing of major donor assisted projects was obtained and analyzed in detail.

1.3.5.6 **MODULE 6: Conclusions and Recommendations:** A critique has been carried out to identify sectors/areas where foreign technical and/or financial assistance could improve/accelerate/assist industrial development.

1.3.6 STEP 6: WORKING DRAFT REPORT

The above modules were documented in the form of a working draft report to be which was submitted to the client on March 27, 1996.

1.3.7 STEP 7: FINAL REPORT

This final report is now being submitted which contains the outcome of the above research, reaching marking the end of this assignment.

1.4 LIMITATIONS OF THE STUDY

The report was prepared within the time specified in the technical proposal and agreed to by the client. There have however been some limitations in the study that need to be pointed out.
A portion of the analysis in the report is based on the data from the Census of Manufacturing Industries. This Census, however, has not been compiled and published since the financial year 1990-91. Therefore, the time series and

trends have been analyzed for this period as there are no alternative data sources that give such information.

The consultant's have tried their level best to compile a list of all donor funded projects in the industrial sector for at least past ten years, but due to the large number of bi-lateral and multi-lateral, funding agencies and an even larger list of executing agencies, there is still a possibility that a few minor ones may have been omitted. Projects that have started in 1996 may also have not been recorded.

CHAPTER 2

PAKISTAN'S INDUSTRIAL POLICY A SECTORAL PERSPECTIVE

This chapter gives an overview of Pakistan's industry and its contribution to the economy. It gives a history of the industrial development and the role that planning and different sub-sectors of the industry played in the past 45 - 50 years government's current industrial development policies and future plans are also given. These include the Twenty Year Perspective Plans, the Eighth Five Year Plan (1993-98) the current industrial investment policy framework and other export promotional policies and incentives.

2.1 INDUSTRY AND PAKISTAN ECONOMY

In 1947 when Pakistan became independent the industrial base of Pakistan was close to non existent. Manufacturing was around 8 percent of the GDP. Today manufacturing is the second largest contributor to Pakistan's GDP. Table 2.1 gives a sectoral overview of Pakistan's economy.

TABLE 2.1

SECTORAL SHARES IN GDP
1949-50 TO 1994-95

Sectors	Contribution to GDP (%)									
	49-50	54-55	59-60	64-65	69-70	74-75	79-80	84-85	89-90	94-95
Agriculture	53.2	48.0	45.8	39.7	38.9	32.7	30.5	26.00	26.0	24.0
Manufacturing	13	15.4	16.5	18.9	16.0	16.3	17.2	19.6	17.3	18.5
Wholesale & Retail Trade	11.9	12.3	12.5	13.5	13.8	14.5	14.3	15.0	17.0	16.1
Transport, Storage & Communi.	5.0	5.7	5.7	6.8	6.3	6.5	6.7	7.2	8.0	10.2
Services	7.7	8.0	8.4	7.4	6.7	7.0	7.2	6.9	7.5	8.2
Public Admin. and Defense	7.0	7.0	6.2	6.3	6.4	9.9	10.0	10.3	9.1	6.5
Ownership & Dwellings	0.2	0.50	0.50	0.42	3.4	3.3	3.0	2.6	4.5	5.6
Construction	1.4	2.0	2.5	4.4	4.2	4.4	5.1	5.4	4.2	4.1
Electricity & Gas Distribution	0.2	0.3	0.5	0.70	2.0	2.4	3.0	3.3	2.8	3.9
Finance & Insurance	0.4	0.5	1.0	1.40	1.8	2.5	2.5	3.1	2.9	2.3
Mining and Quarrying	0.2	0.3	0.4	0.5	0.5	0.5	0.5	0.6	0.7	0.5

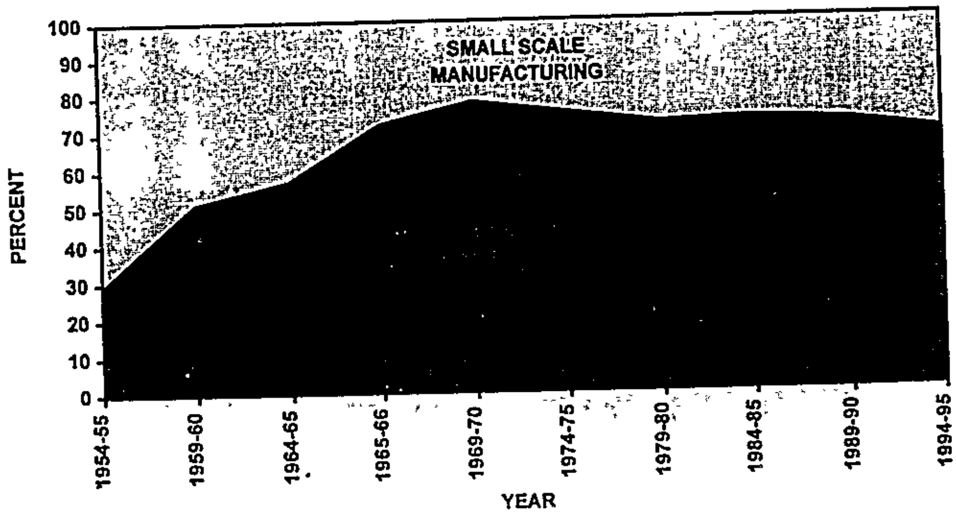
Source: Federal Bureau of Statistics

Typical of a developing third world country in the region, agriculture is still the largest component of the economy, but as the pie is getting larger, this sector is gradually losing its dominance.

In 1994-95, the **share of agricultural sector was at 24 percent. Manufacturing contributed to 18.5 percent of the GDP.** In the past 45 years this sector has shown a steady pattern and has been the area of highest growth in the country's economy.

With the passage of years the large scale industry in Pakistan also increased significantly. From figure 2.1 one can see that after 1954-55 the large scale industry grew at a rapid rate until 1969-70. This was a result of deliberate efforts in this direction during the Second and the Third Five Year Plans (discussed in the next sub-section 2.2). It was envisaged that the increase in capital goods manufacturing sub-sector will help strengthen the industrial base of Pakistan and the small scale industry will automatically follow the large scale industry.

FIGURE 2.1
SMALL AND LARGE SCALE MANUFACTURING
1954-54 TO 1994-95



Source: Federal Bureau of Statistics

In 1972 a major portion of Pakistan's major basic and large scale industry was nationalized. This included food production, banks, life insurance, and all large scale industry including iron and steel, automobiles, chemicals, light and heavy engineering, fertilizer, cement, vegetable, oils, etc. The ratio of the large scale to small scale industry since then has remained stable and now the share of small scale industry has gradually risen. The changes in the structure of industry has, however, expanded and diversified.

Table 2.2 gives the share of different sub-sectors of the manufacturing sector.

TABLE 2.2

PERCENTAGE VALUE ADDED BY INDUSTRIAL SUB-SECTORS

GROUP OF INDUSTRIES	YEAR							
	1955	59-60	64-65	69-70	75-76	79-80	84-85	90-91
Manufacture of Textile	46.1	40.2	32.6	32.3	24.3	17.6	15.9	26.3
Food Manufacturing	8.5	8.3	11.6	14.8	22.1	17.3	17.9	14.0
Manufacture of industrial chemicals	-	-	-		4.9	5.1	8.7	7.8
Manufacture of non-metallic mineral prodcts	4.2	6.4	3.7	4.3	3.6	6.9	6.9	7.6
Tobacco Industries	-	5.6	8.1	8.0	8.3	12.1	11.6	6.4
Iron & Steel basic industries	-	3.1	3.4	2.4	3.3	4.0	10.6	5.5
Manufacture of drugs & pharm. products	-	-	-	-	3.1	4.1	4.0	4.7
Manufacture of electrical machinery	-	2.4	3.6	3.3	3.1	3.1	3.0	4.1
Manufacture of transport equipment	0.8	3.3	3.7	1.4	6.4	5.2	2.6	2.6
Manufacture of other chemical products	6.3	8.4	10.4	8.9	1.9	2.1	3.1	2.6
Manufacture of machinery (expt electrical)	1.5	2.6	1.8	1.2	2.9	1.7	2.5	2.5
Printing, pressing & allied industries	2.8	2.3	1.7	1.5	1.1	1.0	1.1	2.3
Petroleum refining	-	-	-	-	-	6.3	1.4	2.0
Manufacture of paper & paper products	0.0	1.7	1.0	1.3	1.6	1.2	1.0	1.6
Manufacture of leather prod expt footwr	1.0	0.7	1.1	2.0	1.1	1.6	1.1	1.5
Beverage Industries	0.3	0.4	0.8	0.6	1.5	1.8	2.3	1.4
Manufacture of wearing apparel	-	-	-	-	0.3	0.3	0.5	1.4
Ginning , pressing, & bailing of fibre	-	-	-	-	0.9	1.8	1.5	1.2
Manufacture of rubber products	0.5	0.5	-	0.8	1.2	1.1	1.3	1.0
Manufact. of misc. prod of petroleum & coal	5.2	-	-	8.0	3.7	0.4	0.5	1.0
Manufacture of fabr. metal prod exp. mach	2.7	4.0	2.4	1.8	1.8	3.0	1.0	0.9
Manufacture of plastic products n.e.c.	-	-	-	-	0.2	0.5	0.6	0.5
Manufacture of sports & athletic goods	-	-	-	-	0.1	0.1	0.1	0.4
Manufacture of wood products (exp. furn)	-	-	0.1	0.1	0.2	0.2	0.3	0.3
Manufacture of photographic & optical goods	-	-	-	-	0.1	-	0.2	0.2
Other manufacturing industries	7.2	5.8	4.6	5.8	0.4	0.4	0.2	0.2
Manufact. of furn & fixt. (exp. prim metal)	0.3	0.2	0.3	0.2	0.1	0.1	0.2	0.2
Manufacture of glass & glass products	-	-	-	-	0.2	0.4	-	-
Manufacture of scient. prec instr & equip	-	-	-	-	0.5	0.2	0.2	-
Manufact. of footwear exp. rubber or plastic	3.2	2.5	2.3	1.4	0.1	0.2	-	-

Source: Federal Bureau of Statistics

Note :- represents values less than 0.1%

Textile has historically been the largest sub-sector. Its dominance has decreased from approximately half to a quarter of the value added by the total Pakistani industry as other sub-sectors have emerged. Food manufacturing has grown steadily in the last 45 years as well. Industrial chemicals, drugs and pharmaceutical production and oil refining have been the new sub-sectors that have made up a large portion of the value added in Pakistan's Industry. These sub-sector were introduced in the seventies and have prospered well.

2.2 INDUSTRIAL PLANNING IN PAKISTAN

In Pakistan, Economic Planning activities commenced on sound footing, but got bogged down later on account of political instability for long periods, geo-political factors, natural calamities and lastly mismanagement. However, one will notice that these plans have had a significant impact on the direction of industrial development in Pakistan.

At the time of independence, Pakistan had virtually no industry. In 1949-50, two years after independence, the contribution of manufacturing sector GNP was 7%, mostly from small industries. The contribution of large scale industries to GNP was only 1.5%. In spite of several adverse factors, the First and Second Five-Year Plans marked definite stages in the country's economic progress. The First Plan (1955-60) and the Second Plan (1960-65) refined the concept and established the institutions through which planning could be effectively implemented. The First Plan was instrumental in creating some of the basic infrastructure. The Second Plan accelerated the pace of development and led to rapid increase in national and per capita incomes. The growth and diversification during these periods has been remarkably rapid. The large scale industry grew at an average rate of 15% per year. Its contribution increased to 7.4% and of the manufacturing sector as a whole to 11% of GNP. As a result of this impressive growth rate in industry, there has been a significant increase in the production of all major consumer goods and some capital goods as can be seen in the following Table 2.3.

TABLE 2.3
PRODUCTION OF SELECTED ITEMS

ITEMS	1948-49	1963-64
Cotton Textile (mill yds)	90	730
Jute (000 & tons)	Nil	300
Cement (000 tons)	330	1,475
Sugar (000 tons)	30	271
Vegetable. Oils (000 tons)	60	200
Cigarettes (mills)	240	16,000

During this period a beginning was also made in the production of fertilizers, chemicals, paper, etc..

In the Third Five-Year Plan, the emphasis was shifted from consumer goods industry to Producer (Capital) goods industry. As a result of e.g. Heavy Mechanical Complex , Pakistan Machine Tool Factory, Heavy Foundry and Forge, Pakistan Steel, Heavy Electrical Complex and many engineering and basic metal units were planned to be established in order to reduce dependence on imports of capital goods and achieve a degree of self-reliance. During this period the private sector remained main vehicle of implementing industrializaton strategy. Public sector role was more promotional.

In the early seventies, the pendulum swung to the other extreme. The nationalization of basic industries under ERO 1972 increased the share of public sector to about a third of fixed assets in large scale manufacturing industry. This was followed by a sharp increase in public sector investment in industry during 1972-78 with a demoralized private sector virtually in the background.

During the Fifth Five Year Plan (1978-1983), the industrial sector experienced an overall annual growth of 9% and the large scale manufacturing value added grew at an average of 10%. This was particularly a difficult period in Pakistan's economic history. Growth rate slowed down through out the world, inflation soared and countries like Pakistan which exported neither crude oil nor manufactures experienced severe financial difficulties.

In the Sixth Five Year Plan (1983-1988), highest priority was accorded to steel based engineering goods industry. With the completion of Pakistan Steel, emphasis was placed on the setting-up of down stream industries. Within this sector linkages were identified with the demand for equipment originating in various sectors - transport equipment, railway wagons, rails, steel using industry, large diameter pipes, electrical equipment, telecommunication instruments and machinery for domestic industrialization.

Emphasis was also placed to develop mineral based industry e.g. coal development for energy, Saindak Copper project, phosphates fertilizers at Hazara and gypsum crushing. This period also saw the growth of small industrial sector. Despite a well formulated schemes and strategies of the Sixth Plan, it fell short in achieving its goals. There was substantial short fall in remittances, lack of resources for investment and gross neglect towards development of engineering industry. Industrial Plans and capital goods continued to be imported instead of being procured from locally setup manufacturing units. Science and Technology development, quality control facilities and technical education and training continued to be neglected and even ignored. Engineering Industry received step motherly treatment from the authorities and continued to operate at very low capacity. Infact some units were forced to close down on account of heavy losses, bad liquidity and low capacity utilization.

The Seventh Five Year Plan's (1988-93) main emphasis lied on self-reliance, income distribution and poverty alleviation. The industrial growth strategy in this plan emphasized the establishment of more efficient and sophisticated industries with a strong export orientation.

The value added in manufacturing increased by 5.9 % against the target of 8.1 % a year. The large-scale manufacturing could only attain a growth rate of 4.9 % against target of 8.0 %. The short fall was attributed to law and order situation, infrastructure constraints, delay in commissioning of new projects, non-availability of raw material and a world wide recession. Production shortfall was experienced in vegetable ghee, cement, fertilizer, steel billets, roll sheet, tractors, papers, bicycles, and in petroleum products. The growth of engineering and capital goods industries was far from satisfaction.

It has, thus , been apparent that the material planners seemed not to be able to comprehend and employ the principle of planning (as discussed in chapter 6) which are so elementary, yet so fundamentally important for the healthy systematic development of industry in a country. Energy, raw material, infrastructure, science and technology enunciation and technical training have continued to be neglected and short funded with the result that the adequate support and inputs remained to be conspicuous by their absence to attract investors and promote entrepreneurship.

2.3 PERSPECTIVE PLAN - TWENTY YEAR PLAN (1988 - 2008)

The Perspective Plan gives a vision of the future direction of Pakistan's development strategy. Among other goals, the Plan envisages the Pakistani economy to achieve the following quantitative targets at the end of the twenty years period:

- Doubling of the per capita income in real terms by increasing the GDP by 175 percent.
- Transformation of the economy with the share of manufacturing sector in GDP rising from the current level of 18 percent to 25 percent.
- Expanding investment level from 19.7 percent during the Seventh Five Year Plan (1988-93) to 21.4 percent of the GDP and the share of national savings from 75 percent to 100 percent of the investment.

- Increasing the ratio of real exports to real imports from 77 percent to 132 percent and total foreign trade from 32.8 percent of the GDP to 35.8 percent.
- Reducing the long term external debt from 34.6 percent of GNP to 13.6 percent.
- Creation of 20.0 million additional jobs and structural change in the pattern of employment with the share of the industry increasing from 19.0 percent in 1992 to 22.0 percent in the year 2008.
- Provision of link roads to all villages.
- Increase in the density of telephones from 20.6 to 91 per thousand people.
- Provision of air transport facilities at divisional level.
- Complete village electrification.

2.4 EIGHTH FIVE YEAR PLAN (1993-98)

Eighth Five Year Plan (1993- 98) was put on anvil in the backdoors of the recent not so bright a scenario. The main theme of the Plan included privatization, deregulation, liberalization, market orientation, community involvement and conservation of physical environment.

It has been envisaged to provide incentives to private sector foreign investment in thermal power generation and exploration oil and gas. The Eighth Plan quotes manufacturing as the main vehicle of economic growth, employment generation, economic diversification, poverty alleviation and export acceleration. The targeted growth rate for the sector is 9.9 percent, where large scale manufacturing is expected to grow by 10.5 percent and small scale by 8.4 percent per annum. Such growth is likely to generate 680,000 additional jobs in the five years period.

For the promotion of private industrial investment, development strategies envisaged establishment of special industrial zones, loaning facilities through DFIs, easing conditions for import of raw material, spares and equipment and training in export promotion and quality improvements. Creation of Special Zones was planned with all basic facilities throughout the country. Encouragements were promised for private investment in expansion and modernization of fertilizers, basic chemicals, petroleum refining, auto-assembly, building materials, engineering and electronics.

The following sections contain a brief description of the sub-sector focus of the 8th Plan.

2.4.1 TEXTILE INDUSTRY

Textile is the most important sub-sector of Pakistan's industry. It contributes to 40 percent of employment, 60 percent of the total export receipts and 30 percent of the total value added in manufacturing. The government intends to undertake the following steps to help the industry:

- Providing support to modernization of facilities, productivity improvement, research and development, information collection and sales promotion.
- Modernization of R&D and training institution like TDRC, National College of Textile Engineering in Faisalabad, Government Weaving and Finishing Center, Textile University in Karachi, etc.
- Full use and implementation of the recommendations made by the study conducted by JICA, wherever possible.

2.4.2 LEATHER AND LEATHER PRODUCTS

Since the industry has large export potential, it will be developed with the use of sophisticated modern machinery, increase in productivity and production of higher value products.

Government will give support in providing fiscal, monetary and physical incentives. UNIDO will carry out a comprehensive study in this context.

Government will provide full support in setting up of training facilities in Karachi, Sialkot and other leather producing centers.

Government is encouraging the industry in setting up of pollution control measures and plans to supports the industry fully in this area.

2.4.3 SUGAR

The demand of sugar is expected to increase from 2.5 to 3.4 million tones per year, whereas the total installed capacity will reach 4.4 million tonnes. The government will continue to support in increasing of manufacturing and cropping for sugar.

2.4.4 FERTILIZERS

The demand for fertilizers is expected to grow at 3.9% and is expected to reach 3.019, 2.148 and 0.811 million nutrient tonnes of nitrogenous, phosphoric and potassic fertilizers respectively.

- The nitrogenous fertilizer is production capacity is planned to increase from 1.123 to 1.677 million tonnes
- The phosphate fertilizer production is planned to remain at 0.1 million tonnes due to the lack of raw materials
- All potassic fertilizer will be imported

2.4.5 CEMENT

The estimated production of 14.75 million tonnes falls short of the estimated demand by 0.238 million tonnes. Additional capacity will be developed during the period.

2.4.6 ENGINEERING INDUSTRIES

The government has determined that the following steps will best help the engineering industries:

- Facilitation of support industries.
- Removal of shortcomings in ability to absorb new technologies, upgrading quality, product design and cost competitiveness.

2.4.7 AUTOMOTIVE INDUSTRY

The indigenisation process is proceeding satisfactorily in the automobile industry and the local content of the vehicles ranges from 45 - 80 percent. i.e. Trucks/Busses (45%), Motor Cars (47%), Motor Cycles (73%), and Tractors (80%).

The market is expected to grow at the rate of 10% per annum which translates into 50,000 vehicles per year. A rational tariff policy, indigenisation through vendor development and standards/quality control measures will be followed.

2.4.8 ELECTRONICS AND ELECTRICAL APPLIANCES

Production in this sub-sector is limited to assembly of radios, tape recorders, TV sets, air conditioners, refrigerators etc. Indigenisation lies between 50 - 75 percent. The Eighth Plan envisages rapid introduction of electronics in all sectors of the economy as the technical developments are dependent on electronics.

2.4.9 CHEMICALS

Products like citric acid, oxalic acid, monosodium glutamate, can be produced from molasses. Production of PVC, Ethylene, Glycol, Polystyrene, and Butadiene from molasses/alcohol are also being considered.

2.4.10 PAPER INDUSTRY

The average capacity utilization of paper mills is around 65 percent and the paper demand during the five years is expected to be 302,143 tonnes. The major impediments to growth are:

- Lack of technical skills;
- Environmental concerns;
- Lack of forests for pulp production;
- Duties and taxes on imported materials;
- Power failures; and
- Low volume units.

The GoP plans to study the possibility of setting up bagasse based paper mills around the existing sugar mills

2.4.11 EDIBLE OILS

The vegetable oil/ghee industry is the largest user of edible oils, most of which is imported. A new strategy to restructure the industry will be formulated with the following considerations:

- Promotion and facilitation of the development of both farming and processing of domestic non-traditional oil seeds.
- Fiscal and monetary incentives for and to encourage setting up of oil solvent extraction units.
- Marketing strategy for the sale of sunflower meal to make solvent extraction viable.
- Adjustment of the sale price of vegetable ghee/oil to discourage its smuggling.

2.4.12 MEDIUM SMALL AND MICRO ENTERPRISES

The small and medium enterprises (SMEs) have traditionally specialized in processing of the local raw materials such as cotton, food processing, wood and furniture, construction materials etc. Other activities are focused on adding value to imported raw materials and promoting exports like manufacturing of carpets, sports goods, cutlery and surgical instruments. Thirty percent of the investments in SMEs have been in agro-based industries, half of which was invested in power looms. The strategy regarding SME will include the following:

- Rationalization of fiscal regime to ensure its rapid growth.
- Improvement of productivity and enhancement of quality and standards through training in vocational and technical skills and upgradation of technology and modernization.
- Strengthening of the programs for improving linkages between large and small industries leading to harmonious growth of the total industrial sector.
- Establishment of common facility and service centers for the provision of necessary inputs.
- Provision of infrastructure and transport facilities for setting up SMEs in no-industry/backward areas to remove regional imbalances.

2.5 CURRENT INDUSTRIAL INVESTMENT POLICY FRAMEWORK

With the aim of liberalizing the economy and utilizing the immense potential in the industrial sector, the present government has prepared guidelines for future

- The government's role in management of industry is to rapidly shift to a regulatory role to encourage private investment. Public sector investments will continue in sensitive industries and in industries where private capital is shy or profits are low, such as defense, hydel power projects, communications, infrastructure development. Policy of mixed economy, public-private partnership will be promoted in these areas.
- Accelerated and balanced industrial development in all the regions, specially in the backward and rural areas is to be ensured.
- Shift in investments from traditional sectors such as textiles, sugar, etc. to heavy engineering, value added and hi-tech industries will be encouraged.
- Provision of small credit facilities to the lowest strata of the society without collateral on the pattern of Grameen Bank of Bangladesh is to be introduced.
- Multinational joint ventures will be actively sought to encourage foreign investment.
- Establishment of export oriented industries will be given preference.
- Effective steps will be taken to stop smuggling to protect local industries.
- To encourage spread of industries away from major towns, emphasis will be laid on accelerated development of infrastructure facilities, including electricity, roads, telecommunication facilities, etc. at the new centers.

The government has given the following incentives for specified subsectors. These include electronics, pharmaceuticals, fertilizers, mining, dairy farming, cement, engineering and tourism.

2.5.1 ELECTRONICS INDUSTRY

Profits and gains derived by a Pakistani company from an industrial undertaking approved by the government, set up in the North-West Frontier Province or in the Islamabad Capital Territory, and engaged in the **manufacture of electronic equipment or components** thereof are **exempted from levy of income tax for a period of five years** from the date of commencement of commercial production.

The following goods, produced or manufactured in Pakistan are also exempted from the levy of sales tax:

- Magnets based on agglomerated ferries.
- Digital switching system.

- Potentiometer and printed circuits.
- Solar cells, traveling wave tubes, image intensification tubes, picture tubes, cathode-ray tubès including LED and LCD, integrated circuits, custom built chips, diodes, transistors, toners and semi-conductor chips.
- Image projectors.
- Mathematical and Scientific calculating instruments used by students.
- Digital multimeters.
- Automatic control equipment and oscilloscopes.

2.5.2 FERTILIZERS

The plant and machinery which is not manufactured locally and is imported for the expansion of the existing units or to set-up new units to manufacture fertilizers is exempted from levy of sales tax and is charged concessionary custom duty of 15%.

2.5.3 PHARMACEUTICALS

Plant and machinery, not manufactured locally and is imported for the manufacture of pharmaceutical raw materials for such chemicals which are available in the international market without any franchise is exempted from levy of sales tax and concessionary custom duty of 25%.

2.5.4 DAIRY FARMING

Dairy machinery and equipment, not manufactured locally, imported by a unit of dairy industry approved by the provincial governments or approved and financed by the Agricultural Development Bank of Pakistan is exempted from the customs duty as is in excess of 25% advalorem and whole of sales tax.

Machinery imported for livestock farms/dairy items and feed mills is exempted from so much of the customs duty as is in excess of 25% ad-valorem.

2.5.5 CEMENT

Import of plant and machinery (which is not manufactured locally), for the manufacture of cement, including Portland cement, is exempted from the customs duty to the extent as it Is in excess of 25 percent ad-valorem, and whole of sales tax.

2.5.6 ENGINEERING

The import of machinery and equipment, which is not manufactured locally is exempted from customs duty to the extent as it is in excess of 25 percent ad-valorem; and whole of sales tax.

The import of raw material and components used in the manufacture of the specified capital goods and machinery for initial installation, balancing, modernization or replacement are exempted from the customs duty.

2.5.7 TOURISM

Concessions of duty free imports as admissible to industries in the prescribed areas are also allowed for tourism projects.

Machinery and equipment, which are not manufactured locally, for use in hotel industry, recreation, amusement, aviation and transport sector, imported under Non-repatriable Investment Scheme are exempted from customs duty in excess of 15 percent ad-valorem.

The import of kitchen and other hotel equipment, which are not manufactured locally, for tourist projects and specialized equipment for adventure tourism including equipment for mountaineering and water sports are exempted from payment of customs duty in excess of 15 percent ad-valorem and sales tax.

2.5.8 ADDITIONAL INCENTIVES / EXEMPTIONS PROVIDED IN THE BUDGET 1995-96

- Five Year income tax holiday for industrial undertakings engaged in food processing which are established between 1st July, 1994 and 30th June, 1997.
- Five Year income tax holiday for industrial undertaking engaged in manufacture of soft and stuffed toys which are established between 1st July, 1994 and 30th June, 1997.
- Contractors/sub-contractors for designing, supply of plant and equipment and construction of power projects will be subject to with-holding tax @ 4% of gross receipts which will be the final discharge of income tax liability.
- Income tax on dividends on shares of a company set-up for power generation has been reduced from 15/20% applicable to foreign companies to 7.5% of the amount of such dividend.

- Flat rate of income tax for non-residents has been reduced from 30% to 20%.

2.6 EXPORT PROMOTION POLICIES AND MEASURES

To promote exports from Pakistan the government has set up a Federal Export Promotion Board and an Export Promotion Bureau. These agencies formulate and implement export promotion policies and measures. Details of these agencies are given in subsection 3.3.

In addition to the activities undertaken by the export promotion agencies the government has also set up an Export Processing Zone (EPZ) in Karachi. Subsection 3.5 describes the EPZ in detail and lists the incentives available to the industries in the area.

The trade policy for the recent fiscal years was made in response to the Government's plan's to promote exports and is indicative of the direction of GoP's policies. Following are the "policy imperatives" that the Ministry of Commerce has identified:

- Prepare Pakistan's industrial firms for a freer global trading system emerging from the Uruguay Round Negotiations and implementation of its agreements from 1995.
- Stimulate exports by facilitating easy access to raw materials, intermediates and machinery.
- Encourage efficient and competitive import substitution.
- Impart greater transparency by minimizing administrative controls.
- Simplify and streamline procedures and make the policy user-friendly.
- Ensure availability of essential commodities required by consumers.
- Adopt tariff measures instead of quantitative restrictions.
- Facilitate inflow of latest technology into the country.
- Strengthen the research and development capabilities and improve human resources deployed in the export sector.
- Liberalize controls on the economy enabling market forces to promote efficiency and create competition.
- To provide a long term and stable policy framework.

It was decided that the import of raw materials, machinery and other specified products required by export industries will be given a concessional tariff treatment. The Trade, Finance and Revenue Divisions have agreed upon a concessional tariff arrangement which is given Table 2.4.

TABLE 2.4

TAX REGIME FOR EXPORT ORIENTED INDUSTRIES

S.No	ITEM	AGREED TARIFF	
		CUSTOMS DUTY	SALES TAX
1.	Rice Milling Machinery.	15%	Zero %
2.	Machinery and equipment of seafood industry.	15%	Zero %
3.	Shrimp seedlings	10%	Zero %
4.	Machinery, spares, accessories for sports goods, surgical goods, cutlery industry.	15%	Zero %
5.	Willow	10%	Zero %
6.	Seasoning plants	10%	Zero %
7.	Densifide wood knife industry	10%	Zero %
8.	Straightening machines, spoon foiling machines and vibratory bowls for cutlery industry.	10%	Zero %
9.	Hides and skins/wet blue leather.	Zero %	Zero %
10.	Parts and components for manufacture of specified items of capital goods and machinery.	Vendor manufacturing components of various types have been exempted from sales tax including domestic sales tax	
11.	Gold, pearls and precious stones for export of jewelry.	Zero %	Zero %
12.	Comber for spinning.	15%	Zero %
13.	Auto coner for spinning.	15%	Zero %
14.	Specified raw materials for engineering industry.	10%	Zero %
15.	Spares for the machinery listed at S. No. 1, 2, 3, 7 and 9.	As per tariff for machinery	Zero %
16.	Following additional machinery items required by surgical industry:		
	i) CNC Vertical machining centre, parts and accessories	15%	Zero %
	ii) CNC Turning Centre, parts & accessories thereof.	15%	Zero %
	iii) Vibratory polishing machines, parts and accessories thereof, including media and compounds,	15%	Zero %
	iv) Centrifugal Belt Grinding and Polishing	15%	Zero %

In addition to the above from time to time, the Export Promotion Bureau suggests subsidies to exporters of cotton, textiles, leather goods etc.

2.7 SCIENCE AND TECHNOLOGY POLICY

National Technology Policy (NTP) was prepared by Ministry of Science and Technology (MoS&T) in November 1993 with the following objectives:

- Bridge the gap between the best local and the best international practices:
- Bridge the gap between the best and sub-standard local practices in industrial technology:
- Improve and develop technology: and
- Technical manpower development:

The strategies to be adopted to achieve the above objective, envisaged:

- Leading role for the private sector:
- Development of metrology, standards, testing and quality (MSTQ) system:
- Development of R & D system responsive to market needs:
- Dissemination of technology information:
- Promotion of technology transfer:
- Development of technical manpower:
- Targeting small and medium industry:
- Promotion of environmentally friendly and sustainable technologies.
- Use of informatics etc:

MoS&T prepared a technology development plan costing about Rs. 1500 million for about 100 projects pertaining to the following areas:

- Commercialization of R & D:
- Use of information technology:
- Technological manpower development:
- New and emerging technologies:
- Advanced materials:

- Alternate source of energy:
- Bio-technology:
- Chemical engineering:
- Macro economic policy for technological development: and
- Development of environmental projects:

It seems that the NTP and TDP could not take a positive start, firstly because of low priority in the overall scheme of things and secondly on account of lack of a competent and capable institutional arrangement for their implementation.

CHAPTER 3

INSTITUTIONAL FRAMEWORK FOR INDUSTRIAL DEVELOPMENT

There are a number of institutions involved from various levels of the government and the private sector that have direct bearing/relations with the industrial sector. The prominent among them are:

- Federal Ministry of Industries & Production;
- The provincial Department of Industries;
- The Board of Investment at the federal level;
- The provincial Investment Committees;
- The Federal Export Promotion Bureau;
- The Federal Export Processing Zones Authority;
- The Federal Special Industrial Zones;
- The Provincial Industrial Estates;
- The Federation of Pakistan Chambers of Commerce & Industry;
- The Local Level Chambers of Commerce & Industry;
- The sectoral Industry Associations;
- The federal owned commercial banks and DFIs; and
- The private commercial and investment banks, etc.

The following sections contain a brief description of the above institutions.

3.1 BOARD OF INVESTMENTS (BOI)

The **Board of Investment (BOI)** has been set up as an investment promotion and facilitation agency. The composition of **BOI** is given in Table 3.1. It works directly under the Prime Minister and plays a pivotal role in the formulation of investment policies.

Recently, the **BOI** has been converted into Investment Division and has been made a part of the Ministry of Production and Industries. However, the situation is not clear regarding its organization. Discussion with the concerned officials has revealed that the present independent status of BOI will be maintained. **BOI** acts as a "one-stop-shop" and is the focal point of contact between potential investors and all concerned government agencies. It is responsible for providing infrastructure facilities and investment related information. It also coordinates processing of investment proposals with various government departments. BOI offers its services to all investors interested in Pakistan's economy and has a roster of pre-feasibility studies for prospective foreign and local investors to help assess projects in selected areas.

The **BOI** meets once in two months to discuss investment issues or policies and incentive packages for promoting investment in priority sectors or industries. It has held seminars and investor conferences in Canada, South Korea, Hong Kong, Italy, Spain, Germany, UK, USA, Malaysia and Singapore. It has identified and prepared pre-feasibilities for 70 highly profitable projects in Pakistan. As a result of its activities, up till the end of last year 132 Memoranda of Understanding (MOUs) were signed with various countries including USA, South Korea, UK and Hong Kong. The projected investment on the basis of these MOUs was US$ 22 billion in sectors like power generation, chemicals and petrochemicals, highways and ports construction, automobiles and engineering, mining, and development of special industrial zones.

TABLE 3.1
COMPOSITION OF BOI

- Prime Minister, Chairman, BOI
- Chief Ministers of all 4 provinces
- Vice Chairman, BOI
- Secretary, BOI
- Governor, State Bank of Pakistan
- Secretary, Min. of Finance
- Secretary, Min. of Industries & Production
- Secretary, Min. of Commerce
- Secretary, Min. of Petroleum & National Resources
- Secretary, Min. of Communications
- Chairman, Central Board of Revenue
- Chairman Pakistan Banking Council

Source: BOI

The **BOI** through an institutional arrangement also monitors implementation of MOUs signed by various private parties and the concerned Ministries. Regular meetings are arranged between co-signers to identify problems, find solutions and accelerate the process of implementation.

On the negative side **BOI's** inability to keep up the momentum of resolving the policy issues to facilitate investments is reflected in lapsing of 59 out of the 139 MOUs signed in 1995. It is expected that several other MOUs are awaiting a similar fate. The main reasons for some of the projects not progressing beyond the paper stage are:

- The failure of the **BOI** to devise a mechanism under which the deadline for financial closure of the MOUs can be fixed and notified.
- The attitude of the Government towards credit needs of the investors, which seemed very favorable at the policy level.
- The lengthy government procedures and bureaucratic hurdles.
- The over all law and order situation in Karachi-the major industrial and commercial center of the country.

The four provincial government i.e., Sindh, Punjab, NWFP and Balochistan have also set-up provincial Investment Committees on the same lines as the BOI. These Investment Committees are attracting private investors on the basis of specific provincial level incentives and their natural resource endowments.

3.2 FEDERAL MINISTRY OF INDUSTRIES AND PRODUCTION

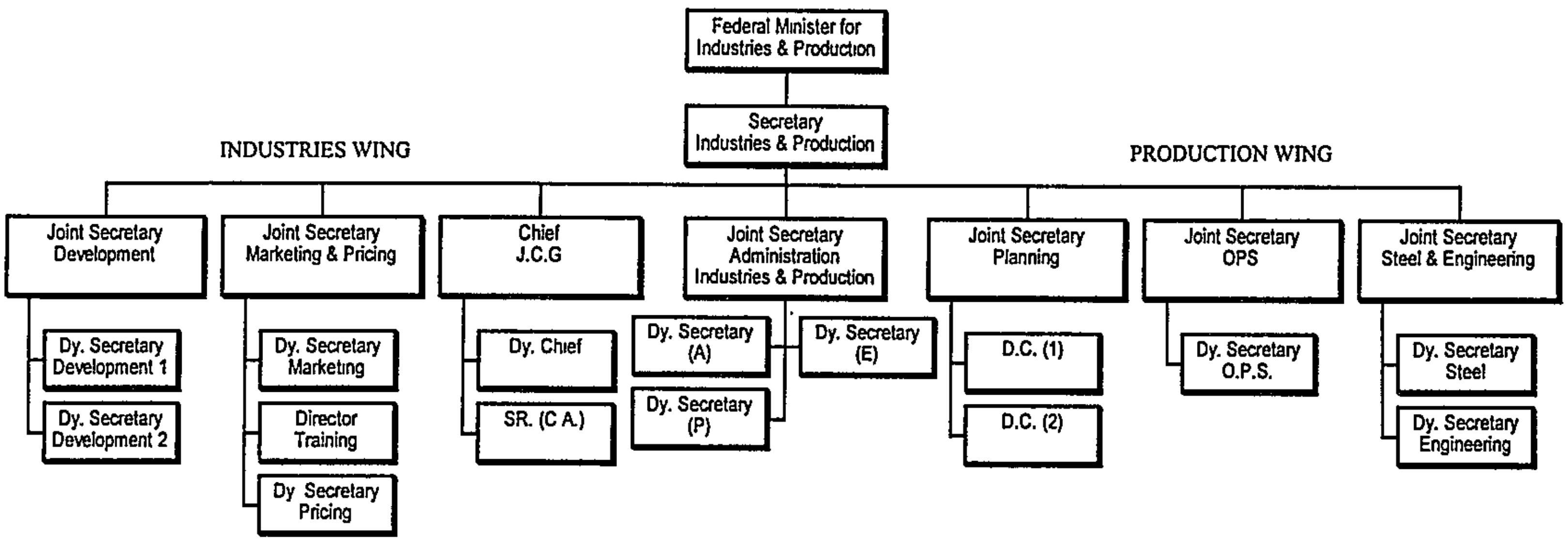
Traditionally the Federal Ministry of Industries had played a regulatory role in Industrial development. Industry is considered a "provincial subject" and hence its development and administration has been in the hands of the provincial departments of industries. The provincial departments were responsible for executing the GOP's plans in the private sectors and giving the required sanctions and authorizations to set up industries.

In 1973, when a large portion of the industry was privatized a separate Federal Ministry of Production was formed to manage the public sector industries. It also made large scale investments in such industries in areas such as cement, fertilizer, heavy engineering, chemicals and petrochemicals, etc.

With the deregulation and privatization, the role of the Ministry of Production has become very limited. There is very little industrial investment from the public sector and most of the public sector industries are up for privatization. With this situation it was decided to merge the Ministry of Production and the Ministry of Industries in 1993. Since then the **Ministry of Industries and Production (MOIP)** has started functioning as one ministry with an Industries wing and a production wing. The organizational chart of the **MOIP** is given on the following page.

The role of the Industries Wing which deals with the private sector, has also become less pronounced in the newly deregulated economy. For setting up any industry an approval from the Ministry of Industries was necessary but these days only a selected industries which are on the negative list need such permission. These are:

FIGURE 3.1
ORGANIZATION CHART OF MINISTRY OF INDUSTRIES AND PRODUCTION



The **INDUSTRIES WING** deals with:
- Balance/Non-privatized units of the Ghee Corporation.
- Deletion Program for Auto/Engineering Industries.
- Provides Support to private sector in resolving tariff and other issues with other GOP's departments.
- Leather Industry Development Organization.
- Export Processing Zone Authority.

The **PRODUCTION WING** deals with:
- Pakistan Steel.
- Non-privatized/balance units of:
  - Pakistan Industrial Development Corporation.
  - State Engineering Corporation.
  - State Petroleum and Refining Corporation.
  - Fedral Chemicals and Ceramics Corporation.
  - National Fertilizers Corporation.
  - Pakistan Automobile Corporation.

- Alcohol Products;
- Arms and Ammunition;
- Security Printing and Mint; and
- High Explosives and Radio Active Substances;

Besides these industries the sanctioning role of the Ministry has been restricted. Its objective now is to become a facilitator rather than a regulator. The ministry tries to address the problems that the local industries are facing and finds remedies. The Ministry also has representation in administration of Board of Investments, Export Processing Zones Authority, Export Promotion Bureau and several DFIs. All these institutions are discussed separately in different sections of this Chapter.

3.3 EXPORT PROMOTION BUREAU

The **Export Promotion Bureau (EPB)** is an attached department of the Ministry of Commerce **(MOC)** and was established in 1963. Recently the **EPB** has been converted into a full-fledged Export Division and has been made a part of the **MOC**. The main objective of **EPB** is promoting and supporting sustained growth in exports of goods and services both in terms of volume and value.

The charter of the Bureau is to:

- Assist the government in formulating and administering export policies.
- Formulate export targets and monitor exports.
- Recommend production for export and establishment of export oriented industries.
- Receive and disseminate market intelligence.
- Sponsor incoming and outgoing trade delegations.
- Participate in international trade fairs.
- Settlement of trade disputes.
- Market studies, seminars and workshops.
- Registration of export houses abroad.
- Training of officers and businessmen.
- Export of services.
- Registration of importers and exporters.

- Licensing for raw materials replenishment (RMR) to exporters in respect of banned and restricted items.
- Refund of 6% import license fees to the exporters against exports of goods from Pakistan.

EPB is headed by a chairman, who is a Minister of State, and a vice-chairman. **EPB** has its head offices in Karachi and regional offices in Lahore, Islamabad, Multan, Quetta, Peshawar, Faisalabad, Hyderabad, Sialkot, Gujranwala, Swat, Abbotabad and Sargodha.

The **EPB** has established an information and advisory center. It publishes a weekly "Export Information Bulletin" providing the latest foreign trade inquiries. It maintains a diary of Pakistani exporters, foreign buyers, a library with trade related and educational information and local and international journals on export trade.

Regular seminars on various topics are held by the **EPB**. These include seminars on "Basics of Exports," "How to Export More," "Marketing and Sales," "ISO 9000 Quality Management Systems." and many other seminars conducted by local and international experts.

EPB also does promotional activities for Pakistani industry. These measures include publications on Pakistani products in various languages, video films and documentaries and press releases in national and international periodicals and journals.

Trade fairs is another means by which **EPB** promotes exports from Pakistan. The categories of fairs organized by **EPB** are:

- General fairs;
- Specialized fairs;
- Quota fairs;
- Store displays; and
- Single country fairs; etc.

In 1994 - 95 **EPB** has participated in over 45 such fairs whereas in 1995-96 it has so far organized more than 75 fair all over the world including Far and Middle East, Europe, Africa and the Unites States. The **EPB** also hosts foreign and arranges outgoing local trade delegations. These activities are meant to diversify Pakistan's market for its products. Some of the new markets explored through **EPB's** activities are South Africa, Latin America, Commonwealth of Independent States (Ex USSR), Australia, New Zealand, Fiji, North Africa and the newly industrialized countries of Asia.

The Export Promotion Bureau is represented in the management and gives patronage to the **Pakistan Design Institute** and **Pakistan Packaging Institute.** In similar lines the **EPB** has approved several projects using **Export Marketing Development Fund** and the **Export Development Fund.** These projects include a number of training institutes that will help the export industries. **Annexure 2** gives a list of these projects. It is very interesting to note that most of these projects are run in the private sector by the concerned trade or industry association.

3.4 EXPORT PROCESSING ZONES AUTHORITY

In order to promote foreign investment, procure foreign technology, and promote export oriented industry, an **Export Processing Zone** was established in Karachi in 1981. The **KEPZ** had a late start and took seven years before it was operational. The regulations, at first, were prohibitive and the incentives inadequate to attract foreign incentives. The incentives are still being added and prohibitive regulations are being lifted. The result of these measures has been a total foreign investment of US$ 200 million providing employment to 6000 people, 75 percent of which are females.

TABLE 3.2
INDUSTRY IN KEPZ

Sector	No. Of Units In Production	No. Of Units Under Constructn
Garment	17	10
Electronics/Precision mech.	14	05
Specializd fabric/Yarn process.	03	01
Light Chemicals	10	06
Leather products	08	
Gemstones/Jewelry	01	01
Metals	01	
Engineering	03	02
Food processing	01	
Furniture	01	01
Paper printing/packaging	04	03
Petroleum/Oil processing	02	
Miscellaneous	09	01
Total	74	30

Source: Export Processing Zone Authority

There are 74 units in production and 30 under construction in **KEPZ.** Table 3.2 gives the breakdown of these industries. In future the **KEPZ** is to be extended into its second phase. Other zones have been planned in Lahore, Peshawar, Quetta, Multan, Sialkot, Islamabad and Port Qasim but these may have at best reached a paper stage.

The planning, development, management and operation of the **EPZ** is done by the **Export Processing Zone Authority (EPZA). EPZA** was established in 1980 by the promulgation of the **Export Processing Zone Authority Ordinance** by Government of Pakistan. **EPZA** is an autonomous body that works under the

Ministry of Industries & Production and consists of a nine member Board of Directors. The Chairman is appointed by the Federal Government.

Exports from the **EPZ** are free from exchange controls and entrepreneurs do not have the obligation to repatriate their funds to Pakistan. Some of the major regulations, incentives and facilities regarding the **EPZ** are as follows:

- Residents of Pakistan are allowed to invest up to 100% in joint ventures in the Zone. In other words there is no minimum investment requirement for foreigners to operate in these zones.
- Tax holiday upto year 2000, after which tax will be levied at 25% of the normal applicable rate.
- Import of equipment, machinery and materials (including components, spare parts, and packing material) for enterprises set-up in the Zone is exempted from all federal and provincial taxes and duties including customs, excise, sales tax and municipal taxes.
- The **Export Processing Zone Authority (EPZA)** provides a "one window operation" with simplified procedures for import permits and export authorizations without custom duty sales tax, Octoroi as well as other surcharges.
- International distribution centers are allowed to be established.
- Constructed warehouse buildings are available on temporary rental basis.
- Businesses are free to choose shipping companies, forwarding agents, and contractors for construction of factory buildings and import of construction material.

With the removal of tax and other fiscal incentives for the **SIZs** (See next sub-section), it is feared that these will also be removed for the **EPZs** in the near future. This would hamper the momentum of investment that has grown in the last two years.

3.5 SPECIAL INDUSTRIAL ZONES (SIZs)

The original concept of **Special Industrial Zones (SIZs)** was to locate six of these zones on the Lahore-Islamabad Motorway. The ambitious Motorway project has been curtailed and gradually reinstated in parts and its progress is no longer completely clear. The location of the **SIZs** (Table 3.3), however, has been changed. According to the Industrial Policy objectives, stated in Subsection 2.4, the locations for **SIZs** have been chosen on the basis of balanced industrial development in all regions, especially backwards areas of Pakistan. **(SIZs are indicated on the map)**

These Zones will be developed through an **Investor, Developer & Promoter (IDP) Scheme** whose management, in terms of development and marketing, will be in the private sector. The IDP can be either foreign or local. The infrastructure such as electricity, gas, water and roads will be the responsibility of the concerned government departments.

TABLE 3.3
LOCATION OF SIZs

PROVINCE	LOCATION
PUNJAB (3)	D.G. Khan, Rahim Yar Khan and Leiah
SINDH (3)	Larkana, Nawabshah and Keti Bunder
NWFP (2)	Between D.I. Khan and Bannu, Risalpur and Akora Khattak
BALOCHISTAN (2)	Quetta and Windher
AZAD JAMMU & KASHMIR (1)	Mirpur
NORTHERN AREAS (1)	Mokandpas near Gilgit

Source: BOI

BOI will perform the role of intermediary between all the concerned departments and the IDP which includes the offering of land for lease and road access by the province.

WAPDA and **KESC** will construct grid stations for electricity as a part of their own development program. The **IDP management** will be responsible for providing land for the grid stations and distribution of electricity beyond these points. Sui Northern Gas Pipelines Ltd. **(SNGPL)** or Sui Southern Gas Co.**(SSGC)** will deliver natural gas to a certain take-off point after which the management of **IDP** will be responsible for its further distribution.

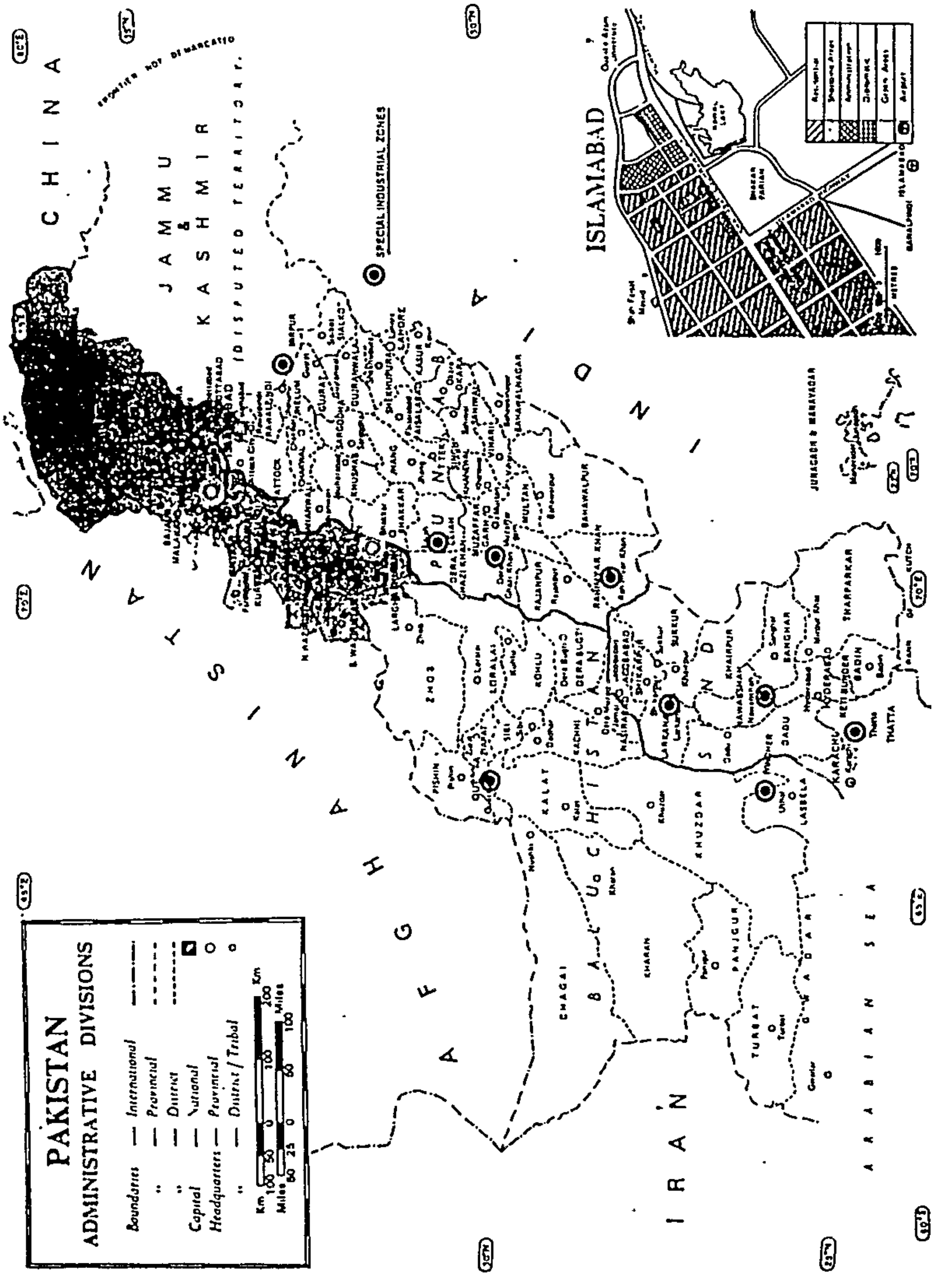
Pakistan Telecommunication Corporation Ltd. will maintain and mange the telephone facilities to and inside the **SIZs.**

The **government will be responsible for providing adequate water supply** to the boundary of the SIZs. The internal distribution including filtration will be the responsibility of the developer.

Public facilities such as Fire Stations, Police Stations, Health Centre, Offices of Banks, Custom Offices will be provided by the concerned departments at their own cost.

Another major recent change made by the current government to encourage investments in the SIZ scheme has been the **removal of the requirement of;**

(i) exporting 60% of the production and;
(ii) the minimum of 40% of foreign equity in the industrial undertakings.


PAKISTAN
ADMINISTRATIVE DIVISIONS
ISLAMABAD
SPECIAL INDUSTRIAL ZONES
CHINA
JAMMU & KASHMIR
AFGHANISTAN
IRAN
ARABIAN SEA
INDIA
PUNJAB
SIND
BALUCHISTAN

As a package of incentives to investors setting up industries in **SIZs**, the Government notification issued in January 1995 guaranteed the following:

- Exemption of whole of customs duty and sales tax on such imported plant and machinery which is not manufactured locally and is meant to be installed in the **SIZs**. Exemption of 25% customs duty on imported raw materials which are not produced locally. In case of new industries, the imported raw materials will be completely exempt from customs duty and sales tax for a period of ten years.
- Exemption of products of new industries from sales tax for 8 years.
- Exemption of 25% excise duty on end-products of industries in **SIZs**. New products will be totally exempted from excise duty for 8 years.
- Exemption of income tax from profits and gains accruing to an assessee from an industrial undertaking in **SIZ** for 10 years.
- Exemption of tax on "Capital Gains" for 5 years after commercial production.
- The debt to equity ratio for undertakings in the SIZs has been set at 70:30.

In January 1996 the government issued an SRO that has removed all the incentives in terms of tax exemptions from these industrial zones. This was done as a response to the demand from the IMF for Pakistan to increase its tax base.

These SIZs are in a paper stage at the moment. **BOI** has just been able to demarcate the land.. Industrial units exist only in DI Khan, Rahim Yar Khan, Leiah, and Mirpur. Consultants have been hired to start design work in DG Khan, Mirpur, Larkana and Quetta. So far, no investor has been found for the IDP scheme. Withdrawal of incentives will make this task even more difficult. The lack of good infrastructure and the less than ideal locations in terms of availability of labour, raw materials, transportation costs, etc. make these zones a difficult choice to set up industry.

3.6 INDUSTRIAL ESTATES

There are **over fifty industrial estates in Pakistan.** Punjab and Sindh have 21 industrial estates each, NWFP has 11 and Balochistan has 4. A large number of these are classified as small industrial estates. Even the ones not classified in this category are not as big in scale as the planned SIZs. **Annexure 3** lists these estates province wise and also gives the year of their establishment and the basic services available at the estates.

These industrial estates have been set up by the provincial governments. As and when a provincial government wants to set up an industrial estate, the concerned department of industries would put their request forward to all the concerned federal ministries. These ministries would then review the request and prepare a proposal for the cabinet. If the cabinet approves then the industrial estate is established with its management and control in the hands of the provincial Department of Industries.

Recently there has been no initiative from the provincial governments with regards to setting up new industrial estates. The **SIZs** have been planned by the **BOI** such that each province gets their share of industry and the provincial governments have been concentrating on establishing successful schemes in their respective provinces.

3.7 FEDERATION OF PAKISTAN CHAMBER OF COMMERCE AND INDUSTRY

The **Federation of Pakistan Chambers of Commerce and Industry (FPCCI)** is the federation of all local chambers and trade and industry associations of Pakistan. It is a corporate body licensed by the government of Pakistan under the Trade Organizations Ordinance 1961 and operates under the Directorate of Trade Organizations of the federal Ministry of Commerce.

FPCCI has the status of the **Apex Body of Trade and Industry** representing directly or indirectly almost the entire private business and industry of the country. Membership of **FPCCI** is confined to Chambers and Associations of commerce and industry and all of the 105 All-Pakistan Associations representing industry, trade or service sectors.

The objectives of **FPCCI** are:

- To aid and stimulate the development of industry, trade, agriculture, mining, transport and allied activities such as inland and foreign trade and investment, banking, insurance and shipping etc.
- To promote unanimity of thought and action and bring about balance and reconcile conflict of interest among industry and trade and develop liaison with counterpart bodies abroad, and
- To provide representation to the private sector.

FPCCI also has a consultative status in over 65 governmental consultative bodies and advisory committees that are responsible for policy formulation and work programs.

FPCCI organizes participation in international fairs/exhibitions and awards trophies for excellence in exports.

Recently the **FPCCI** has started industry promotion and development programmes, e.g. Environmental Technology. Programme for Industry with assistance from the Dutch governmental Pak-German industrial cooperation program through assistance from GTZ of Germany, Small Scale Industry development programme through Dutch assistance, etc..

3.8 CHAMBERS OF COMMERCE AND INDUSTRY

There are Chambers of Commerce and Industry in virtually every business in Pakistan. They are more than 25 in number and their contact addresses are given in **Annexure 4**. These Chambers can be a source of first hand contact between international agencies, donors and the Pakistani business community. Notable among these are the Karachi, Lahore, Sarhad, Sialkot, Faisalabad and Quetta Chambers. Hence a brief description of these is given below.

3.8.1 KARACHI CHAMBER OF COMMERCE AND INDUSTRY (KCCI)

The **KCCI** was established in 1961 and has around 13000 members. These include the five Industrial Town Associations viz S.I.T.E. Landhi, Korangi, Federal 'B' and Gharo, along with 62 trade groups. The Chamber has been represented on various Government Advisory Committees like Advisory Committee on Finance and Commerce, exports, etc.

TABLE 3.4

KARACHI CHAMBER OF COMMERCE AND INDUSTRIES

ADDRESS	Aiwane Tijarat, Off: Sharah-e-Liaquat, P.O. Box No. 4158 Karachi-74000
TEL: FAX: CABLE:	(021) 241609-94 (021) 2416095 Chamcomind
NO. OF MEMBERS	13,000
NO. OF SUB-COMMITTEES	17
PUBLICATIONS	Trade Directories, Annual Report & Numerous other.
NO. OF PERMANENT STAFF	113
TRADE PROMOTION ACTIVITIES	Fairs
LIAISON WITH GOVERNMENT	Advisory Committees, Ministries and Relevant Govt. Agencies.
OTHER PROMOTIONAL ACTIVITIES	

The Chamber's basic function is to promote the cause of trade and industry and to take measures for its promotion and development. It works as a bridge between the government and the members of the business community. It invites government functionaries to the Chamber to discuss and resolve the problems of the members and to find solutions.

It also organizes promotional activities like trade fairs locally and internationally. It publishes trade directories, statistical data, and other publications for the benefit of the business community.

3.8.2 LAHORE CHAMBER OF COMMERCE AND INDUSTRY

The **Lahore Chamber (LCCI)** was founded in 1960 is promoting and protecting the interests of trade, industry and commerce in its area of its jurisdiction in particular and Pakistan in general. The Chamber is represented on all Provincial and Federal advisory bodies that formulate various policies. The Chamber is also represented in many committees of autonomous bodies like the Metropolitan Corporation Lahore and Lahore Development Authority

TABLE 3.5

LAHORE CHAMBER OF COMMERCE AND INDUSTRIES

ADDRESS	11 Aiwane Tijarat Road, P.O. Box No. 597 Lahore, Pakistan
TEL: FAX: CABLE:	(042) 6305538-40 (042) 6368854 Commerce
NO. OF MEMBERS	35
NO. OF SUB-COMMITTEES	35
PUBLICATIONS	Chamber Weekly, Membership List, Monthly Business Trends, Buyers Guide, Annual Report
NO. OF PERMANENT STAFF	20
TRADE PROMOTION ACTIVITIES	National + International Trade Fairs
LIAISON WITH GOVERNMENT	Lahore Development Authority, Metropolitan Corporation Lahore, Representation on 60 Advisory Committees
OTHER PROMOTIONAL ACTIVITIES	Seminars, Conferences, Performance Awards, Outgoing & Incoming Trade Delegations

3.8.3 SARHAD CHAMBER OF COMMERCE AND INDUSTRY

The **Sarhad Chamber** was established in 1958 to promote trade, commerce and industry and to represent and protect the interests of persons in these fields. It holds meetings with the relevant government functionaries and banks to motivate industrial development in the region. It arranges export promotion courses in collaboration with the Export Promotion Bureau. It plays host to foreign trade delegations to promote bilateral trade relations and to discuss viable joint ventures and in turn sends trade delegations to promote Pakistan's exports and attract foreign investment.

TABLE 3.6

SARHAD CHAMBER OF COMMERCE AND INDUSTRIES

ADDRESS	Sarhad Chamber House, G.T. Road Peshawar.
TEL: FAX: CABLE:	216398,215459 (0521) 217412 52471 CHAMR PAK
NO. OF MEMBERS	5,000
NO. OF SUB-COMMITTEES	15
PUBLICATIONS	Annual Report
NO. OF PERMANENT STAFF	8
TRADE PROMOTION ACTIVITIES	Fairs, Incoming & Outgoing delegations.
LIAISON WITH GOVERNMENT	Local Government.
OTHER PROMOTIONAL ACTIVITIES	Export Promotion Courses and Seminars on ISO 9000 in collaboration with EPB.

3.8.4 RAWALPINDI CHAMBER OF COMMERCE AND INDUSTRY (RCCI)

The **Rawalpindi Chamber** was established in 1959 to promote trade, commerce and industry and to protect the rights and interests of the people engaged in the said activities. It liaises with various relevant government functionaries to promote industrial development in the region. The Chamber arranges trade seminars with the EPB. It hosts foreign trade delegations and sends its members to foreign countries to promote trade relations.

TABLE 3.7

RAWALPINDI CHAMBER OF COMMERCE AND INDUSTRIES

ADDRESS	Chamber House, 108, Adam Jee Road, P.O. Box No. 323, Rawalpindi Pakistan.
TEL: FAX: CABLE:	584397, 566238 (92-51) 586849 Cable Chamber
NO. OF MEMBERS	2,000
NO. OF SUB-COMMITTEES	10
PUBLICATIONS	Annual Report
NO. OF PERMANENT STAFF	15
TRADE PROMOTION ACTIVITIES	Trade Delegations.
LIAISON WITH GOVERNMENT	Local Government Bodies, Federal Government.
OTHER PROMOTIONAL ACTIVITIES	Trade Seminars in collaboration with EPB.

3.8.5 SIALKOT CHAMBER OF COMMERCE AND INDUSTRIES

The Sialkot Chamber was established in 1982. Prior to that it functioned as Sialkot Association of Trade and Industry and was affiliated to the Lahore Chamber since 1976.

TABLE 3.8

SIALKOT CHAMBER OF COMMERCE AND INDUSTRIES

ADDRESS	P.O. Box No. 1870 Shara-e-Aiwan-e-Sanat-o-Tijarat, Sialkot, Pakistan.
TEL: FAX: CABLE:	89579,87938 92-432-86779 46314 SCCI PK
NO. OF MEMBERS	5,000
NO. OF SUB-COMMITTEES	15
PUBLICATIONS	Annual Report & other Promotional Material.
NO. OF PERMANENT STAFF	13
TRADE PROMOTION ACTIVITIES	Organizes trade exhibitions in Sialkot for sports goods, surgicals, etc..
LIAISON WITH GOVERNMENT	Local Committees.
OTHER ACTIVITIES	

3.8.6 FAISALABAD CHAMBER OF COMMERCE AND INDUSTRIES

Faisalabad is another region of Pakistan which has traditionally been an industrial area. Hence its chamber is also very important in Pakistan's industrial development.

TABLE 3.9

FAISALABAD CHAMBER OF COMMERCE AND INDUSTRIES

ADDRESS	National Bank Building (2nd Floor), Jail Road, Faisalabad, Pakistan.
TEL: FAX: CABLE:	615085,32583, 616045-45 (0411) 6115085 4285 FCCI PK.
NO. OF MEMBERS	1,500
NO. OF SUB-COMMITTEES	17
PUBLICATIONS	Annual Report
NO. OF PERMANENT STAFF	20
TRADE PROMOTION ACTIVITIES	Trade delegations.
LIAISON WITH GOVERNMENT	Local Government Agencies EPB Ministry & Commerce.
OTHER PROMOTIONAL ACTIVITIES	

3.9 TRADE AND INDUSTRY ASSOCIATIONS

There are a large number of trade and industry associations in Pakistan. **Annexure 5** lists of the major ones. Most of them may not be well organized but are the best industry specific contacts available. Some of the progressive associations like the Pakistan Tanners Association has been working with donors on projects in environment. All Pakistan Textile Mills Association has initiated the Textile University of Pakistan, many other industry association are also presently setting up training and testing facilities with the assistance of the Export Development Fund etc.**(Annexure 2)**

3.10 BANKS AND DEVELOPMENT FINANCIAL INSTITUTIONS

In the first two decades of Pakistan's creation the banking Industry flourished. In 1972 it was nationalized. As a result, all the commercial banks were merged into five banks, i.e. Habib Bank, National Bank, United Bank, Muslim Commercial Bank and Allied Bank. The few foreign banks catered to the needs of multi-nationals operating in Pakistan.

The response of banking, financial and capital markets to liberalization and deregulation of the economy in the past few years has been quick. The direct investment in Pakistan (local and foreign) has not increased substantially. However, the forms in which funds are available and the types of services offered have become sophisticated and diversified. **In 1992**, there were **10 new commercial banks, 24 leasing companies, 5 investment banks and 20 modarabas in operation**. The Prudential Banking Regulations and privatization of the banking sector was the reason for this sudden development. Today, **there are 41 commercial banks**, out of which 20 are local and 21 are foreign. There are **23 leasing companies** and over **50 modarabas** listed on the Karachi Stock Exchange.

Lease financing makes up only 3 % of the total financing requirements in Pakistan's economy. These funds are used mostly in the medium (3-5 years) and long term, where capital was scarce and hard to come-by from the traditional lending institutions. **In developed countries, lease financing accounts for around 30% of the total investments in the economy.** For a country in the region at a similar stage of development the share of leasing activities is above 15%. Hence, this sector has a substantial growth potential, and the 20 - 25% annual average industry growth, since 1992 in leasing activities is still a small part of the market that has been exploited.

Besides the conventional lending institutions there are public sectors institutions that were created to finance the industrial development of Pakistan. Some of these institutions are to be privatized in the near future. A brief description of the important institutions is given in **Annexure 6.** Table 3.10 gives the performance of these DFIs for the financial year 1994-5 as reported by the State Bank of Pakistan.

TABLE 3.10

PERFORMANCE OF DFIs IN 1994-95

(Rs. millions)

Development Financial Institution (DFI)	Sanctions	Disbursements	Recoveries
National Development Finance Corporation (NDFC)	8,007.5	2,434.6	2,678.0
Pakistan Industrial Credit and investment Corporation (PIDC)	524.0	697.0	1,753
Bankers Equity Limited (BEL)	1,032.1	1,024.0	1,561.0
Investment Corporation of Pakistan (ICP)	134.1	93.6	226.0
Regional Development Finance Corporation (RDFC)	436.5	482.5	260.2
Saudi-Pak Industrial and Agricultural Investment Corp. (SAPICO)	1328.7	463.0	298.3
Industrial Development Bank of Pakistan (IDBP)	1,508.5	529.8	1,049.3
Pak-Kuwait Investment Company (PKIC)	857.7	660.0	180.5
Pak-Libya Holding Company (PLHC)	549.6	183.3	567.6
Small Business Finance Corporation	4,681.7	3,720.6	678.3
Agricultural Development Bank of Pakistan	9,673.3	8336.9	9,810.2
National Development Leasing Corporation (NDLC)	2,521.0	1,163.7	1,217.2
House Building Finance Corporation (HBFC)	1,006.7	972.0	2,592.6
Federal Bank for Cooperatives	50.0	12.7	3,547.0
Total	32311.4	20,773.7	26,419.2
Commercial Banks		9,392.0	
Grand Total	**32311.4**	**30,165.7**	**26,419.2**

Source: State Bank of Pakistan

CHAPTER 4

INDUSTRIAL QUALITY CONTROL - STATUS AND REQUIREMENTS

This Chapter discusses the status of industrial quality control in the Country and assesses the needs for the future development of industry. Quality inspection, certification and marking procedures in Pakistan have been described. The major government institutions dealing with quality control and the future government strategy in this area is also discussed.

Industrial quality control is generally lacking in Pakistan. Besides multi-nationals and some large scale producers, the concept of quality control is not well appreciated by the industry. The inability to produce goods with a consistent quality has been one of the greatest problem in the industry and is one of the major factors that hampers exports from Pakistan.

4.1 PRESENT STATUS: STANDARDS AND QUALITY CONTROL INSTITUTIONS

4.1.1 PAKISTAN STANDARDS INSTITUTE

The **Pakistan Standards Institute (PSI)** was established in 1951 as a wing of the newly formed Central Testing and Standards Laboratory, orignally attached to the Ministry of Industries. In 1958 it became an autonomous organization and was given statuary status in 1961. It was assigned the task of operating the Pakistan Standards Institution Certification Marks Scheme under the Certification Marks Ordinance of 1961. Table 4.1 gives the relevant information about **PSI.**

TABLE 4.1
PAKISTAN STANDARDS INSTITUTE - VITAL STATISTICS

CHAIRMAN	Minster of Science and Technology	
PRINCIPAL EXECUTIVE	Director	
STAFF POSITION	Head Office, Karachi	102
	Punjab Regional Office	22
	Sindh Regional Office	19
	NWFP Regional Office	3
	Total	152
ANNUAL BUDGET		Rs.22 million
SOURCES OF REVENUE	Government Grant	60%
	Own Sources	40%
TECHNICAL DIVISIONS		8

TABLE 4.1
PAKISTAN STANDARDS INSTITUTE - VITAL STATISTICS

COMPULSORY ITEMS FOR CERTIFICATION MARKS SCHEME	Home Market	41
	Export Market	35
REGISTERED INSPECTION AGENCIES		42
SUBSCRIBED MEMBERSHIP OF INTERNATIONAL ORGANIZATIONS	ISO (International Standards Organization, Geneva) IEC (International Electro-technical Commission, Geneva) OIML (Organization of Internationale De Metrology Legale, Paris)	
QUALITY ASSURANCE (Certification Marks Scheme)	No of Factories Inspected	1223
	No of Licenses Issued	123
	No of Licenses Renewed	82

Source: Pakistan Standards Institute

PSI is managed by its General Council. The federal Minister for Industries and Production was the chairman and Joint Secretary of same the Ministry was the vice chairman of the General Council. Recently the Standards Institute has come under the Ministry of Science and Technology (details in section 4.3).

The **PSI** itself is headed by a Director, who is the Principal Executive Officer. **PSI** has its Head Offices in Karachi, and regional offices in the four provincial capitals. **PSI** staffs 152 people in all its offices

The **PSI** generates about 40 percent of its income through sales of standards, compulsory certification marks, applications, licenses, marking fees and registration and membership fees of inspection agencies. The rest of the expenses are met by grant-in-aid given by the Government of Pakistan.

The activities of the **PSI** include preparation, printing, sale and implementation of Pakistan Standards, registration of inspection agencies, introduction of the **PSI** system, collaboration with other national and international standards organizations, and dissemination of information and knowledge about standardization and quality control.

4.1.2 CENTRAL TESTING LABORATORIES

The two Central Testing Laboratories (CTLs) are located in Karachi and Lahore and were established in 1951, and worked as a subordinate offices of Ministry of Industries. The CTLs were intended to give the government technical assistance in testing its own local and foreign procurement.

In January 1982 GOP promulgated the Inspection Agencies Ordinance, to control and regulate the imported and exported goods. According to this Ordinance all items of export and import shall have an inspection certificate with regard to the standard specification. CTL is the only public sector agency that issues such certificates.

The Laboratories perform testing in the following six areas:

- Chemicals:
- Physical and Engineering:
- Electrical:
- Building Materials:
- Textiles: and
- Paper Products

The headquarters of the CTL are located in Karachi and there is a zonal office in Lahore. The total professional staff in Karachi is 28 (Director, two Deputy Directors, five Assistant Directors, three Senior Examiners, and seventeen Examiners), and at Lahore is 10 (Deputy Director In Charge, Assistant Director, Senior Examiner and seven Examiners).

The CTLs have an annual budget of about Rs 9.2 million and about 20 percent of it is generated from the activities of the CTL.

In 1980 the GOP launched a project called "Standardization and Quality Control" with the technical and financial assistance of UNDP. The project entailed improving and expanding the services that the CTLs provide. The obsolete testing equipment was replaced and other upgraded. In Karachi the electrical and chemical laboratories were upgraded which included a spectro lab and dynamometer, which still needs to be installed. In Lahore the same were renovated and equipment including a pipe-crushing machine, dynamic balancing machine and a lab for cement testing. In the chemical section the equipment included a spectro-lab and some items in the micro-biology lab. Technical training was given to operate the new equipment and in general to management for effectively running a central testing laboratory.

Despite these upgradations the CTLs are not in a position to cater to all of Pakistan's needs. The number of labs and staffing is too small for the labs to

have an effective outreach in the entire country. Besides, the CTLs have financial problems and cannot even run and maintain their current facilities.

4.1.3 NATIONAL PHYSICAL STANDARDS LABORATORY

The **National Physical Standards** Laboratory is working with the Pakistan Council for Scientific and Industrial Research. It is located in Islamabad. **NPSL** is the only institution that maintains certain metrological standards in Pakistan. The facilities and the funding for the laboratory is, however, insufficient and hence it can not maintain all the physical standards.

The Laboratory also lacks the ability to collaborate with other such national or international institutes to be able to keep its standards traceability with the rest of the world. In the past year, the Chinese government had helped **NPSL** maintain its standards and prepared a proposal for upgradation of the laboratory. The cost of such a massive upgradation, that is nevertheless imperative, is very high. The World Bank and the GOP are trying to fund this project but to date have not had much success.

4.2 INTERNATIONAL REQUIREMENTS (ISO 9000 &14000)

With rapid globalization of the international market the need for international standards has greatly risen. It is feared that the European Union will require ISO 9000 certification standards for the import of manufactured goods into their common market. Besides Europe the ISO 9000 standards are widely recognized and are increasingly being used as a requirement for filling out supply tenders world wide. In response to these new requirements some of the multi-nationals like AEG, Siemens and ICI have already acquired the certification in Pakistan. Some other Pakistani manufacturers have also tried but only 14 few have been successful in the process so far. The main reason for the sluggish performance are:

- Lack of information and the understanding needed for these requirements.
- The high cost of acquiring certification because no local body confers the certification or carries out the audits.

The **Export Promotion Bureau** is regularly holding seminars in all major cities to introduce ISO 9000 to export oriented industries. **EPB** claims that representatives of at least 600 companies have attended such lectures. Such activities will help the industrialists recognize the requirements. Similar initiatives have also been taken by the local chambers of commerce and industry.

Just after taking over **PSI**, the Ministry of Science and Technology has sent three of **PSIs** employees to be trained for ISO 9000 certification. The efforts of

EPB and **PSI** may be steps in the right direction but the scale at which these activities are taken will not bring the industrial quality standards to a satisfactory level. There is limitation on how many companies can three certification agents inspect and certify in a year.

Another international standard that may be introduced in the near future is ISO 14000. Articles of these standards have not been finalized. These are environmental standards for industries. With the growing concern about the environmental degradation through industry, the global markets will have to conform to one standard. ISO 14000 is being prepared keeping this in view. Although the implementation for such standards will not happen in the near future but the Pakistani industry should be prepared for such measures since the conversion of all industry to certain international environmental standards is inevitable.

4.3 GOVERNMENT'S PLANS FOR QUALITY IMPROVEMENT

The Senate - the highest legislative body of the Country has recently approved the bill to formulate the **Pakistan Standards and Quality Control Authority (PSQCA)** which will work under the Ministry of Science and Technology. **PSQCA** will be formed by the merger of **PSI** and **CTLs**. This has been done in an effort to consolidate the governments resources and to create a body that can single handedly promote quality standards in Pakistan.

PSQCA will perform the following functions:

- Designing, measuring and testing instruments and test procedures.
- Inspection and testing of products and services for quality, specification and characteristics for import and export purposes.
- Reviewing matters necessary for quality improvements in products and processes.
- Preparation, implementation, and arrangement of domestic and international training in standardization, quality control, testing, and weights and measures for technical staff of the authority and other organizations.
- Establishing and authorizing inspection and testing centers in important industrial sites and towns.
- Providing for quality labeling standards to specify ingredients, performance, specification, usage, methods, and other relevant quality related information.

- Grading products when requested by manufacturers or whenever necessary for the purpose of quality control improvement
- Setting up the mode of inspection and the manner of obtaining samples.
- Examination of manufacturing plants for products or processes for approval of mark-up of the authority.
- To stop manufacture, storage and sale of products which do not conform to national or international standards.
- Inspecting and sampling materials in which the authority mark has been used to determine whether they conform to recognized standards.
- Specification of the conditions on which a license or certificate to use any of the authority marks may be granted, renewed, suspended, canceled, or withdrawn.
- Granting, renewal, suspension, cancellation or withdrawal of a license or certificate for the use of any of the authority marks.
- Levying fees, for marketing, grant or renewal of any license or certificate in relation to the use of any of the authority marks.
- Levying fees for checking, inspecting and testing products for import, export, or local consumption.
- Framing, publishing, amending, revising or withdrawing the Pakistan Standards in relation to any article, product, or process.
- Determination of Pakistan Standards for the measurement of length, weight, volume, energy and materials.
- Collection and circulation of statistics and other information about standardization, quality control, metrology, and applied research.
- Establishment and maintenance of libraries, museum, and laboratories and accreditation of other laboratories to enhance standardization, metrology and quality control.
- Communication with public and government agencies at national and international levels on matters connected with standardization and other
- activities of the authority through circulars, books, media, seminars, and workshops.

- Registration of inspection agencies.
- Coordination and cooperation with other national, regional and international organizations.
- Constitution of a committee for carrying out other schemes and programs of the authority.

The above listed objectives are all necessary for Pakistan to develop, maintain and improve industrial quality standards. Formation of the **PSQCA** will help this but with the existing facilities it is hard to imagine that the **PSQCA** will be equipped to undertake such an onerous task.

Quality control needs formulation of standards, maintenance of physical standards and testing facilities to ensure the quality according to the agreed standards. The **CTLs** and **NPSL** possess neither the capability nor the scale to cater to all of Pakistan's industry.

Another problem that may arise after the establishment of **PSQCA** is that the different agencies that are working to improve the industrial quality control in Pakistan may have trouble in implementing their plans as their approach may differ in principal. UNIDO, World Bank and the Chinese government are already helping Pakistan with the program and the European Union has also conducted a study on the same subject, but their efforts are not concerted. The World Bank for example is of the idea that the industrial quality control should be monitored by a single body that should have a corporate structure. The Government has, however, made the step to hand the entire function to the Ministry of Science and Technology.

Therefore, it is of utmost importance to first establish what plan of action does the GOP need to take and then all the interested agencies should either collaborate or at least confer with each other before identifying and implementing a project.

4.4 QUALITY INSPECTION AND CERTIFICATION MARKING

These functions are currently performed by the **PSI.** Under the **Certification Marks Ordinance of 1961 PSI** is responsible for assuring quality of 41 items in the domestic market and 35 items for export. The Certification Marks Division of

PSI in Karachi and Lahore monitors the quality systems of manufacturing units for these items. The procedure for certification marking is given in **Annexure 7.**