

# Manufacturing and Mining

## 3.1 Introduction

The manufacturing sector posted a growth rate of 3.56 percent during the current fiscal year July-March 2011-12 compared to 2.96 percent of the same period last year. A modest improvement was seen in Large Scale Manufacturing (LSM) in July-March 2011-12 as the Quantum Index of

Manufacturing (QIM) increased by 1.05 percent against the target of 2.0 percent compared to growth of 0.98 percent during the same period last year. Due to revision of the base year as well as new industries being added, it is not prudent to compare the performance of the LSM sector on the revised base against the official growth target of 2.0 percent (Box-1).

### Box-1

The methodology to compute Quantum Index of Manufacturing (QIM) has been revised during the current fiscal year. This includes rebasing, addition of new industries and revision of weights. Important Changes can be gauged from the table below.

Previous QIM	Rebased QIM				
<ul style="list-style-type: none"><li>Base Year 1999-00</li><li>Weight derived from the Census of Manufacturing Industries (CMI) 2000-01</li><li>Cumulative weight of 75.075 percent for 100 items is being used for computation of QIM</li></ul>	<ul style="list-style-type: none"><li>Base Year 2005-06</li><li>Weight derived from the Census of Manufacturing Industries (CMI) 2005-06 using UN International Standard Industries Classification (ISIC) Rev 3.1</li><li>Cumulative weight of 70.332 percent for 112 items is being used for computation of QIM</li></ul>				
Comparison of Weights					
CMI 2000-01			CMI 2005-06		
Sources	No of Items	Weights (%)	Sources	No of Items	Weights (%)
MOIP <sup>1</sup>	35	44.446	MOIP <sup>1</sup>	36	49.556
OCAC <sup>2</sup>	11	5.232	OCAC <sup>2</sup>	11	5.410
BOS <sup>3</sup>	54	25.397	BOS <sup>3</sup>	65	15.366
All	100	75.075	All	112	70.332

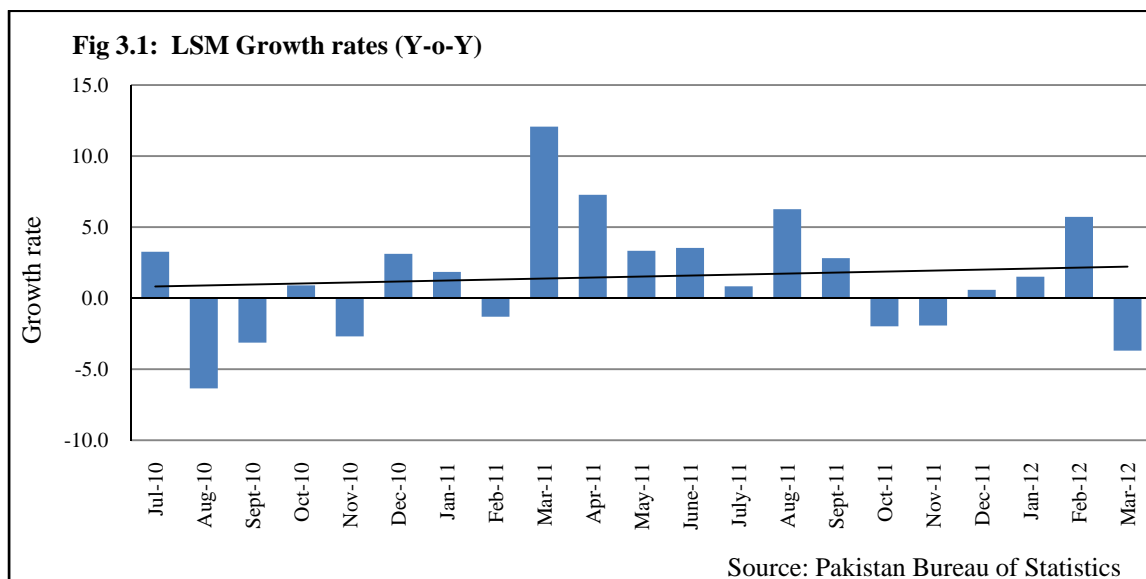
<sup>1</sup>: Ministry of Industries and Production

<sup>2</sup>: Oil Companies Advisory Committee

<sup>3</sup>: Bureau of Statistics (Provincial)

The production data received from the Oil Companies Advisory Committee (OCAC) comprising of 11 items, Ministry of Industries and Production 36 items and the Provincial Bureau of

Statistics 65 items respectively have contributed in LSM growth as -0.26 percent, 0.75 percent and 0.55 percent.



The growth rate in Large Scale Manufacturing (LSM) has recovered, largely due to good performance among the sub categories such as food, beverages and tobacco, paper and board, textile, non-metallic mineral products, pharmaceutical and leather products compared to negative growth seen during the second quarter of the current fiscal year. The Year to Year positive growth during the start of current fiscal year (July-Sep) can be partially attributed to export demand which has increased the production in the short run. Dismal performance was seen in the winter season (Oct-Dec) which was due to persistent gas shortages. Moreover, agro-based industries which were recovering from the impact of the floods of 2010, was again hit by another natural calamity in the form of heavy rains in Sindh during August 2011. The cotton crop is most vulnerable to floods and almost all major sugarcane producing districts were affected but losses to sugarcane were lower as the crop is relatively resilient to flooding. The floods also damaged industrial supply networks and rural demand and this coupled with severe power and natural gas shortages led to a number of

key industries (textile, fertilizer, steel, glass etc) not operating at expected levels.

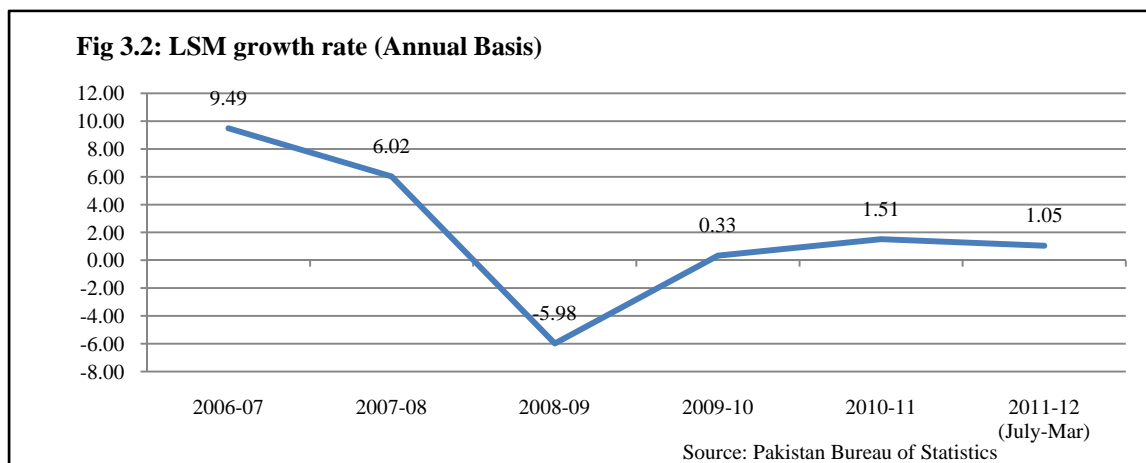
LSM production began to revive in December 2011 as the impact of flood began to subside. A remarkable growth of 6.0 percent was witnessed in Feb-2012. This could also be attributed to the beneficial effect of specific policies on large scale industry. Effective fiscal policy helped in revitalizing the growth to some extent due to reduction in duties on beverages, automobiles, cement and air conditioners. This step was necessitated in view of the costly input prices and the need to absorb the volatility in the production of these industries. In addition, the growth in agro-based industries was based on increase in cotton (Punjab) and sugarcane production during the current fiscal year. In March 2012, the year to year performance of the sector turned negative by registering a decline of 3.7 percent owing to prolonged power and gas shortages.

### Group-wise Performance

The group-wise analysis (Table 3.1) indicates some of the groups in the Large Scale

Manufacturing (LSM) experienced a positive growth during the first nine months (July-March) of the current fiscal year. The groups showing substantial increase include pharmaceutical (10.89 percent), paper and board (8.38 percent), wood

product (7.39 percent), food beverages and tobacco (6.53 percent), non-metallic mineral products (2.87 percent), leather product (1.76 percent) and textile (0.77 percent).



The sectors showing a decline in production during July-March, 2011-12 were iron and steel products (28.47 percent), rubber products (24.63 percent), engineering products (10.19 percent), electronics (7.88 percent), coke and petroleum products (5.68 percent), chemicals (4.70 percent), automobiles (0.84 percent) and fertilizers (0.42 percent).

The performance of LSM production for the remaining period of 2011-12 augurs well due to the

improvement in some other external factors such as higher textile export, better marketing strategies in smaller food processing industries and the government's supportive policies for tractors, wheat milling and pharmaceutical industry.

The group wise growth and the contribution of each of the LSM for the period July-March 2010-11 versus July-March 2011-12 is presented in Table-3.1.

**Table 3.1: Group-wise Growth and Points Contribution rate of LSM for the month of July-March 2011-12 vs. July- March 2010-11**

S.No	Groups	Weights	% Change July-March		% Point Contribution July-March	
			2010-11	2011-12	2010-11	2011-12
1	Textile	20.91	0.7	0.8	0.15	0.16
2	Food, Beverages & Tobacco	12.37	14.0	6.5	1.73	0.81
3	Coke & Petroleum Products	5.51	-4.6	-5.7	-0.25	-0.31
4	Pharmaceuticals	3.62	1.3	10.9	0.05	0.39
5	Chemicals	1.72	-2.5	-4.7	-0.04	-0.08
6	Automobiles	4.61	11.9	-0.8	0.55	-0.04
7	Iron & Steel Products	5.39	-10.3	-28.5	-0.56	-1.53
8	Fertilizers	4.44	-9.2	-0.4	-0.41	-0.02
9	Electronics	1.96	-14.4	-7.9	-0.28	-0.15
10	Leather Products	0.86	17.4	1.8	0.15	0.02
11	Paper & Board	2.31	-2.3	8.4	-0.05	0.19
12	Engineering Products	0.40	-9.5	-10.2	-0.04	-0.04
13	Rubber Products	0.26	9.2	-24.6	0.02	-0.06
14	Non-Metallic Mineral Products	5.36	-9.6	2.9	-0.51	0.15
15	Wood Products	0.59	6.9	7.4	0.04	0.04

Source: Pakistan Bureau of Statistics

Growth was mainly derived from consumer goods. Food and pharmaceuticals showed the strongest contribution. In addition, intermediate goods such as building materials, fertilizers and petroleum products posted a modest contribution in overall LSM performance.

Some important items wise contribution in Large Scale Manufacturing growth witnessed in generating sets (143.88 percent), blankets (109.87 percent), electric transformer (31.15 percent),

juices, syrups and squashes (26.68 percent), heavy machinery & equipment (20.99 percent), sugarcane machine (19.24 percent), electric tubes (17.86 percent), kerosene oil (14.56 percent), liquids/syrups (14.09 percent), footwear (6.15 percent) and LPG (3.44 percent).

An Item wise review of production of selected items in Large Scale Manufacturing during July-March 2011-12 is presented in Table 3.2.

**Table-3.2 : Production of selected industrial items of Large Scale Manufacturing**

S.No.	Items	Unit	Weight	July-March		% Change (Jul-Mar) 2011-12	% Point Contribution (Jul-Mar) 2011-12
				2010-11	2011-12		
1	Deep Freezers	(Nos.)	0.16	67380	35316	-47.59	-0.08
2	Jeep & Cars	(Nos.)	2.80	101532	110430	8.76	0.25
3	Refrigerators	(Nos.)	0.24	690236	737146	6.80	0.02
4	Upper Leather	(000 sq.m.)	0.39	19324	18350	-5.04	-0.02
5	Cement	(000 tones)	5.30	20814	21410	2.86	0.15
6	Liquids/Syrups	(Milion Liters)	1.10	62.456	71.259	14.09	0.16
7	Phosphatic fertilizer	(000 N tones)	0.40	385.313	359.344	-6.74	-0.03
8	Tablets	(Milion Nos)	1.90	15848.369	17550.617	10.74	0.20
9	Cooking oil	(000 tones)	2.20	228.649	228.834	0.08	0.00
11	Nitrogenous fertilizer	(000 N tones)	4.04	1667.918	1674.972	0.42	0.02
12	Cotton Cloth	(Million sq.m.)	7.20	764.480	769.600	0.67	0.05
13	Vegetable Ghee	(000 tones)	1.10	816.924	829.434	1.53	0.02
14	Cotton Yarn	(000 tones)	13.00	2200.41	2225.31	1.13	0.15
15	Sugar	(000 tones)	3.50	3892.141	4485.592	15.25	0.53
16	Tea Blended	(000 tones)	0.40	50.783	57.511	13.25	0.05
17	Petroleum products	(Milion Liters)	5.50	8427.809	8046.298	-4.53	-0.25
18	Cigarettes	(Billion Nos.)	2.10	47.458	45.674	-3.76	-0.08
19	Coke	(000 tones)	0.10	218.824	138.616	-36.65	-0.04
20	Pig iron	(000 tones)	1.58	326.675	195.81	-40.06	-0.63

Source: Pakistan Bureau of Statistics

The country has been faced with energy shortages due to which the utilization capacity remained low (Box-2). Nevertheless capacity in the local industry and expected domestic demand based on

high consumption trends remained the driving force in helping to stimulate revival. However, alternate energy sources in the long run could help to further foster growth in the industrial sector.

**Box-2****LSM Data Annual Installed & Utilized Capacity of 37 Items**

S.No	Items	Unit of Measure	Annual Installed Capacity	2010-11 (July-June)		2010-11 (July-Jan)	
				Capacity Utilization	% Age	Capacity Utilization	% Age
1	Sugar	Th. Tones	6,800	4,169	61.31	2,266	74.98
2	Cigarettes	Min Nos	96,187	65,403	68.00	34,521	61.52
3	Cotton Yarn	Th. Kgs	3,240,400	3,939,480	90.71	1,734,630	91.77
4	Cotton Cloth	Th. M2	12,644,000	9,008,980	71.25	5,320,100	72.13
5	Jute Hessian	Tones	24,000	18,218	75.91	10,986	78.47
6	Jute Sacking	Tones	120,000	62,630	52.19	34,261	48.94
7	Jute Others	Tones	36,000	12,326	34.24	7,041	33.53
8-11	Paper & Paper Board	Tones	900,000	434,740	48.30	288,309	54.92
12	Chip Board	Tones	95,000	27,464	28.91	16,844	30.40
13	Sodah Ash	Tones	500,000	378,048	75.61	214,135	73.42
14	Caustic Soda	Tones	230,650	172,031	74.59	99,665	74.08
15-21	Fertilizer	Tones	7,264,700	6,026,611	82.96	3,532,812	83.37
22	Glass Sheet	Th.M2	71,000	13,342	18.79	8,107	19.57
23	Cement	Th. Tons	41,484	28,716	69.22	16,421	67.86
24	Bicycles	Nos	700,000	343,205	49.03	135,307	33.14
25	Coke	Tones	970,000	301,701	31.10	106,647	18.85
26	Pig Iron/H. Metal	Tones	1,230,000	433,104	35.21	158,230	22.05
27	Cast / Rolled Billet	Tones	660,000	3,913	0.59	1,403	0.36
28	Hr. Coils/ Plates	Tones	792,000	358,597	45.28	117,235	25.38
29	Cr. Coils	Tones	210,000	87,946	41.88	16,628	13.57
30	Glav. Products	Tones	100,000	2,720	2.72	-	0.00
31-33	Cars/LCVs/Jeeps	Nos	280,000	153,997	55.00	94,076	57.60
34-35	Trucks/Buses	Nos	25,000	3,300	13.20	1,715	11.76
36	Tractors	Nos	75,000	70,855	94.47	14,896	34.05
37	Motor Cycles	Nos	2,935,525	1,638,457	55.81	962,665	56.22

Source: Ministry of Industries and Production

**3.2 Textile Industry**

The textile industry plays a pivotal role in Pakistan's economy. The contribution of the textile industry in total exports is around 54 percent of the total export earnings of the country. It is a labour-intensive industry and offers entry-level jobs for unskilled labour. Job creation, especially in the clothing sector, has been particularly strong for women, who previously had limited income opportunities outside the household or the informal sector. The textile and clothing industry accounts for 46 percent of the total manufacturing and provides employment to 38 percent of the manufacturing labour force. The availability of basic raw material for the textile industry i.e. cotton, has played a significant role in the growth of the industry because of which Pakistan has been

able to prove its strength in the world by sustaining its position and growth.

**Global Overview**

The international statistics report on export of textile and clothing trade indicates some signs of recovery in this sector after the global financial meltdown in 2008-09. The exports of textile and clothing trade has increased from US\$ 524.0 billion in 2009 to US\$ 602.2 billion in 2010; an increase of 14.7 percent. The export of Pakistan textile and clothing trade has also shown positive signs, increasing from US\$ 9.9 billion in 2009 to US\$ 11.8 billion in 2010, an increase of about 20 percent.

In 2010 China became the major exporter of textiles, pushing the European Union into second

place. India recorded a 40 percent increase in its exports of textiles in 2010 to become the third largest exporting nation, just ahead of the United States. China's share in world exports of clothing increased to 37 percent in 2010, rising from 18.3

percent in 2000, while its share in the country's total exports declined to 8.2 percent, from 14.5 percent in 2000. Among the major exporters of clothing, India registered a decline of 3.1 percent.

**Table 3.3: Export of Textile and Clothing**

(US \$ Billions)

	2000	2004	2005	2006	2007	2008	2009	2010
World Textile	157.3	195.5	202.7	220.4	240.4	250.2	209.9	250.7
World Clothing	197.7	260.6	276.8	309.1	345.8	361.9	315.1	351.5
Total:-	355.0	456.1	479.5	529.5	586.2	612.1	524.0	602.2
Pakistan Textile	4.5	6.1	7.1	7.5	7.4	7.2	6.5	7.8
Pakistan Clothing	2.1	3.0	3.6	3.9	3.9	3.9	3.4	3.9
Total	6.7	9.1	10.7	11.4	11.2	11.1	9.9	11.8
% Age of World Trade	1.88	2.01	2.23	2.15	1.91	1.81	1.88	2.00

Source: Ministry of Textile

### Domestic Overview

Domestically Pakistan is facing problems of shortage of electricity, gas and law and order situation. The unscheduled/scheduled load shedding along with increasing rates of gas and electricity have obstructed the viability of the textile industry as exporters are unable to meet their commitments. Besides this, high interest rates of bank financing have also hindered new investments in the textile industry and layoffs and closures have become common in the industry.

### Performance of Textile Industry

The textile industry of Pakistan has the potential to perform better both in production as well as in export by virtue of its inherent competitiveness on account of its conventional products. However, to sustain its position and increase its share and to move into high value added products, large investments in machinery equipment and new technology are essential. The training of workers, improvement in labour productivity, research and development, product diversification and branding are the immediate areas to focus on. The export performance of this industry is reported in Table 3.4.

**Table 3.4: Export of Pakistan Textiles**

(US\$ Millions)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 (Jul-Mar)
Cotton & Cotton Textiles	10390	10071	9308	9754	13104	8513
Synthetic textiles	430	490	319	446	670	395
Wool & Woolen Textiles	233	216	145	137	132	95
Total Textiles	11053	10777	9772	10337	13906	9063
Total Exports	17011	19224	17782	19290	24827	16913
Textile as %age	65%	56%	55%	54%	56%	54%

Source: Ministry of Textile

### 3.2.1 Ancillary Textile Industry

The ancillary textile industry includes cotton spinning, cotton cloth, cotton yarn, cotton fabric, fabric processing, home textiles, towels, hosiery and knitwear and readymade garments. These

components are being produced both in the large-scale organized sector as well as in the unorganized cottage/small and medium units. The performance of these various ancillary textile industries is discussed below.

**(i) Cotton Spinning Sector**

The spinning sector is the most important segment in the hierarchy of textile production. At present, as per the record of Textile Commissioner Organization (TCO), it is comprised of 521 textile units (50 composite units and 471 spinning units) with 9.99 million spindles and 116 thousand rotors in operation with capacity utilization of 89 percent and 60 percent respectively, during July –March, 2011-12.

**Clothing Sector**

The pattern of cloth production is different from that of the spinning sector. Usually production of cloth in the mill sector is reported and the non-mills sector is not reported. For the non-mills sector, therefore, estimated numbers are taken as proxy. The production of cotton cloth has increased substantially. This sector served as the main strength for the down stream sectors such as bed wear and made-ups and garments. The following table presents the production and export performance of the cloth sector.

**Table 3.5: Production and Exports of Clothing sector**

<b>Production (M. Sq. Mtrs.)</b>	<b>July-Mar 2010-2011</b>	<b>July-Mar 2011-2012</b>	<b>% age Change</b>
Mill Sector	764.480	769.600	0.67
Non Mill Sector	5971.650	5975.850	0.07
Total	6736.130	6745.450	0.14
Cloth Exports			
Quantity (M.Sq Mtr.)	1294.863	1412.963	9.12
Value (M.US\$)	1716.300	1709.961	-0.369

Source: Ministry of Textile

**(ii) Textile Made-up Sector**

This is the most dynamic segment of the textile industry. The major product groups are towels,

tents and canvas, cotton bags, bed-wear, hosiery and knitwear, and readymade garments including fashion apparels. Export performance of the made-up sector is presented in Table 3.6.

**Table 3.6: Exports of Made-Ups**

	<b>2011-2012 (July – Mar)</b>	<b>2010-2011 (July-Mar)</b>	<b>% Change</b>
Hosiery Knitwear			
Quantity (M.DoZ)	75.383	100.451	-24.96
Value (M.US\$)	1216.120	1276.722	-4.75
Readymade Garments			
Quantity (M.DoZ)	19.741	25.455	-22.45
Value (M.US\$)	1216.120	1276.722	-4.75
Towels			
Quantity (M.DoZ)	101.508	149.224	-31.98
Value (M.US\$)	488.273	580.448	-15.88
Tents/Canvas			
Quantity (M.DoZ)	18.139	9.221	96.71
Value (M.US\$)	67.406	29.260	130.37
Bed Wears			
Quantity (M.DoZ)	188.385	243.051	-22.49
Value (M.US\$)	1356.656	1556.984	-12.87
Other Made up			
Value (M.US\$)	418.802	508.768	-17.68

Source: Ministry of Textile

**a) Hosiery Industry**

There are about 12,000 knitting machines all over the country. There is greater reliance on this industry due to the substantial value addition in knitwear. This sector has tremendous export potential also. However the sector remained under pressure from its competitors.

**Table 3.7: Export of Knitwear**

	(July – Mar) 2011-2012	(July – Mar) 2010-2011	% Change
Quantity (000 Doz)	75.383	100.451	-24.96
Value (M.US\$)	1534.662	1726.139	-11.09

Source: Ministry of Textile

**b) Readymade Garment Industry**

The garment industry provides highest value addition in the textile sector. The industry consisted of small, medium and large scale units most of them having 50 machines and below. Large units are now coming up in the organized sector of the industry.

During July-March 2011-12, readymade garments worth \$ 1.2 billion were exported compared to \$ 1.3 billion in the comparable period of last year, thus showing a decline of 4.8 percent. In quantity terms the decline in the exports of readymade garments was 22.5 percent.

**c) Towel Industry**

During July-March 2011-12, exports in this sector stood at \$ 488 million as against \$ 580 million in the comparable period of last year; showing a decrease of 15.9 percent. Quantity exported declined by 31.9 percent.

**d) Canvas**

This is the highest raw cotton consuming sector. The production capacity is more than 100 million sq. meters. This value-added sector also has great potential for export. Nearly 60 percent of its production is exported while 40 percent is consumed locally mostly by the armed forces. Pakistan is the cheapest source of tents and canvas.

**Table 3.8: Exports of Tent & Canvas Industry**

	(July – Mar) 2011-2012	(July – Mar) 2010-2011	% Change
Quantity (000 Doz)	18.139	9.221	96.71
Value (M.US\$)	67.406	29.460	130.37

Source: Ministry of Textile

**iv) Art Silk and Synthetic weaving industry**

The art silk and synthetic weaving industry has developed as a cottage industry over the time based on power looms. Units comprising of 0-10 looms are spread all over the country. The major concentration is in Karachi, Faisalabad, Gujranwala and Jalalpur Jattan as well as in the unsettled areas (Bara, Swat, Khyber Agency and Waziristan). During 2011-12 (July-March), production of synthetic fabric recorded at 1,311,550 million square meters as compared to 1,478,571 million square meters during the same period last year, showing a decrease of 11.3 percent.

**v) Woolen Industry**

The main products manufactured by the woolen industry are woolen yarn 6.864 M.kgs, acrylic yarn 6.960 M.kgs, fabrics 3,445 (M.sq.meter), shawls 13.353 million, blanket 657,235, and carpets 3.5 (M.Sq.meter). The exports of carpets during the period July to Mar 2011-12 is as below Table 3.9.

**Table 3.9: Exports of Carpets and Rugs (Woollen)**

	(July – Mar) 2010-2011	(July – Mar) 2011-2012	% Change
Quantity (M.Sq.Mtr)	2.123	2.512	13.61
Value (M.US\$)	96.078	95.305	0.80

Source: Ministry of Textile

**vi) Jute Industry**

The main products manufactured by the jute industry are jute sacks and Hessian cloth, which are used for packing and handling of wheat, rice and food grains. During 2011-12 (July-March), no change has been recorded in spindles installed capacity whereas single addition has been recorded in the looms installed capacity compared to last



year. However, negative growth was observed in the working capacity of both spindles and looms during the current fiscal year. Table 3.10 shows the installed and working capacity of the industry during the period under review.

**Table 3.10: The installed and working capacity of jute industry**

	(July – Mar) 2010-11	(July – Mar) 2011-12	% Change
Spindles Installed	36076	36076	0%
Spindles Worked	27697	24279	-12%
Looms Installed	1851	1852	0.1%
Looms Worked	1129	1047	-7%

Source: Ministry of Textile

The production of jute goods for the period of July – Mar. 2010-11 and 2011-12 was 92,666 M. ton and 98,753 M. ton respectively, showing an increase of 6.6 percent.

### 3.3 Other Industries

Although Pakistan's exports are mostly confined to cotton and textile products in the international market, there are other industries as well which progressed rapidly and also contributed to the manufacturing sector.

#### 3.3-1 Engineering Sector

The engineering industry in Pakistan has enjoyed some success as a result of some really hard work. The increasing competition that the international market presents has been challenging. Engineering Development Board (EDB) is the apex government body entrusted with strengthening the engineering base of Pakistan. Its main objective is to maintain international standard in the field of engineering goods and services. The EDB has taken initiatives to boost the production of the surgical industry and electric fan Industry.

The current capacity in the surgical sector is under utilized. During 2011-12 (July-March), exports of surgical goods and medical instruments reached US\$ 221 million compared to US\$ 186.7 million during the same period last year. The EDB is

planning to prepare a growth strategy with active participation of all stakeholders in order to touch the export target of US\$ 500 million by 2015.

The electric fan industry is mainly clustered in Gujrat and comprises of more than 2,000 small and medium enterprises. The industry is not only fulfilling local demand for domestic fans of various categories but is also earning handsome foreign exchange besides providing ample employment opportunities. A number of measures have been taken during 2011-12 and are currently underway to facilitate the industry to produce domestic fans at par with internationally accepted standards. The Fan Development Institute (FDI) is also being updated with the cooperation of the Pakistan Council for Science and Industrial Research (PCSIR).

In addition to projecting the engineering image of Pakistan, the EDB has initiated the compilation of the Engineering Goods and Services exporters Directory of Pakistan 2012. The directory shall have the complete profile of the Exporters and shall be circulated to Pakistan's Foreign Missions, Foreign Chambers of Commerce and the EDB's International support partners in the potential markets.

#### 3.3-2 Automobile Industry

The four sectors of the automobile industry have shown mixed trends of growth during the year July-March 2011-12. The industry seems to be less buoyant in comparison with the corresponding period of last year 2010-11. Buses, cars, LCVs and two/three wheelers managed to grow by 23 percent, 9.1 percent, 5.7 percent and 3.1 percent respectively compared to 24.7 percent, 16.4 percent, 20.5 percent and 12.6 percent respectively during the same period last year. A larger decline was witnessed in tractor production which was recorded at 48 percent compared to negative growth of 2.2 percent.

During the start of the current fiscal year, production of tractors declined substantially by almost 70 percent after the imposition of the 16 percent general sale tax (GST) in April 2011. Following the government's announcement to cut GST from 16 percent to 5 percent production

figures have started to recover. The two other components of the automotive industry such as jeeps and trucks also showed dismal performance

by registering negative growth of 44 percent and 6.8 percent respectively. The table given below presents the comparative analysis of the sector.

**Table 3.11: Production of Automotive Industry**

Products	Installed Capacity	2010-11 (July-March)	2011-12 (July-March)	% Change
Cars	240,000	100,870	110,059	9.1
LCVs	43,900	14,159	14,971	5.7
Jeeps	5,000	662	371	-44.0
Buses	5,000	357	439	23.0
Trucks	28,500	2,031	1,893	-6.8
Tractors	65,000	51,664	26,840	-48.0
Two/Three Wheelers	1,800,000	602,268	620,741	3.1

Source: Pakistan Automotive Manufacturing Association (PAMA)

The potential demand for vehicles in the economy is helping to grow the industry but it is highly dependent on the long term policy commitments. The term of the current Auto-industry Development Program is expiring on June 30<sup>th</sup> 2012. The government's commitment with the industry would reflect in a new program which may bring new hope and opportunities for growth. It may be added that the forthcoming opening up of trade with India would bring new opportunities as well as challenges for the auto-industry and thus a transformation is inevitable.

### 3.3-3 Fertilizer Industry

The fertilizer industry, being provider of one of the key inputs for crop production, has significant importance in the country's economy. At the beginning of 2011-12, it was assumed that the country will attain self-sufficiency at least in urea availability because of the operationalizing of two new plants. This has added annual production capacity of 1.8 million tonnes to the national installed capacity taking it to 6.3 million tonnes per annum. However, due to the curtailment of natural gas (the raw material for urea manufacturing), some urea plants produced substantially less than their production capacity. As a result 1.6 million tonnes of urea had to be imported by the government during 2011-12 to meet the deficit. Hence, in addition to spending foreign exchange for imports, the government had to pickup the price difference to equalize the prices of domestic and imported urea; and for this purpose, it is

estimated that the government spent around Rs. 45 billion as fertilizer subsidy in 2011-12.

The fertilizer sector is the second largest consumer of gas after the power sector. Natural gas is used as feedstock as well as fuel in the manufacturing of nitrogenous fertilizers. Three companies namely Sui Northern Gas Pipeline Limited, Sui Southern Gas Company Limited and Mari Gas Company Limited are providing gas to the fertilizer sector. The intensity of the prevailing energy crisis specifically in relation to the supply of natural gas to supply curtailment (20 percent on Sui Network plants and 12 percent on Mari Network) to the fertilizer industry since May, 2010, has meant that the winter load shedding has increased from normal 45 days to 60 days. And on the SNGPL system the rotational load management (shedding) of 15 days for fertilizer plants has also been observed. This policy of gas supply is adversely affecting domestic production of fertilizer and resulting in a price hike and increase in the import bill. Smooth supplies of natural gas to urea plants are essential to run the plants at 100 percent of their installed capacity for making urea available (as per requirement) at stable/affordable prices and for avoiding its import.

### 3.3-4 Cement Industry

The cement production capacity in Pakistan has increased to 44 million tonnes in 2011-12 from 30 million tonnes in 2006-07 due to the establishment of new cement plants. Pakistan's cement is being exported to Afghanistan, India, Africa, and Middle

East. Export of cement is exempted from the Sales Tax and Federal Excise Duty (FED). However, a 16 percent sales tax and the Rs. 500 per ton Federal Excise Duty are being charged on the domestic consumption. The import of coal used as fuel for the cement plants is allowed at 0 percent customs duty and 16 percent sales tax. As per the investment policy of the government, the import of

plant machinery and equipment for the manufacturing sectors is allowed at 5 percent customs duty. The key factors hindering the overall production capacity of cement industry are the energy crises and demand and supply mechanism.

Table-3.12 presents the production and utilization capacity along with the total production of cement.

**Table 3.12: Supply (Million tonnes)**

Years	Production Capacity	Capacity Utilization(% age)	Local Market (Cement)	Export (Cement + Clinker)	Total Production
2006-07	30	80 %	21	3	24
2007-08	37	82 %	22	8	30
2008-09	42	75 %	20	11	31
2009-10	45	77 %	23	11	34
2010-11	41	76 %	22	9	31
2011-12 (July-Dec)	44	70%	11	4	15

Source: Ministry of Industries

### 3.5: Privatization Programme

Pakistan's privatization program was initiated in the early 1990s to demonstrate the government's high priority to private sector development. Pakistan's privatization program was the most successful program in the whole of South Asia, Central Asia and the Middle East as it successfully managed to complete approximately 167 privatization transactions, generating revenue of over US\$ 9 billion.

The last privatization transaction completed by the Privatization Commission was Hazara Phosphate and Fertilizers Limited (HPFL) in November 2008. Thereafter, the privatization program entered into an extended lean period due to domestic and global challenges. Domestically, unstable law and order situation and negative economic outlook adversely affected the investment climate in the country. Internationally, the global financial crisis of 2008 and the on-going Euro zone sovereign debt crisis affected the flow of investment into the country. It may be noted that the privatization program cannot be conducted in isolation and is highly dependent on both the domestic and international regulatory, financial, economic and political environment.

Despite the challenges, the government had re invigorated the privatization program by focusing

on a policy of "Privatization for the People." Under this program a renewed focus is placed on domestic capital market listings. Despite many challenges, the Privatization Commission is actively pursuing a capital market road map, which includes a secondary public offering of Pakistan Petroleum Limited and an Exchangeable Bond for the Oil and Gas Development Company Limited. The transactions will be launched in the near future subject to market conditions.

The Privatization Commission, besides conducting privatization through the capital markets, is also exercising the traditional privatization mode i.e. the strategic sale of two entities, the National Power Construction Company (NPCC) and Heavy Electrical Complex (HEC). The transactions are at an advanced stage and the privatization process is expected to be completed soon subject to market conditions.

In addition, the Ministry has also initiated a landmark program for empowerment of employees of public sector entities in the form of the Benazir Employees Stock Scheme (BESOS), offering 12 percent stock options to employees of 78 public organizations. It is expected that approximately 500,000 employees of 78 SOEs will benefit from this scheme. So far, Trusts have been registered in 64 entities. Out of these, Unit Certificates have

been distributed to 142,756 employees of 50 entities. The total dividend received from the Trusts of 11 entities stands at Rs. 6.79 billion (approx.) out of which 50 percent has been distributed among employees of respective entities and the remaining 50 percent has been transferred to the Central Revolving Fund (CRF) of the Privatization Commission (PC). Buyback claims received till date stand at Rs. 4.45 billion, out of which Rs. 1.160 billion has been paid.

### 3.6: Small and Medium Enterprises

SME-led economic growth has become the hallmark of economic prosperity and general well-being in the world. SMEs are globally recognized as critical for economic development and poverty alleviation. In Pakistan, nearly 99 percent of economic establishments are SMEs; absorbing 80 percent of unskilled labor. These SMEs are collectively providing undeniable support to economic growth by contributing 40 percent to GDP and 30 percent to the exports from the manufacturing sector. To further boost its significance in the economic development process the government has introduced various initiatives to promote SME-led economic growth with the dual aim to accelerate industrial development and export diversification. Most important of these initiatives include approval of the first SME Policy of Pakistan and Infrastructural Development through Public Sector Development Program. In addition to these, SMEDA as a government agency for SME development has been involved in various activities such as providing over the counter services to SMEs, helpdesk facilitation, human resource development, technological up gradation and infrastructural support.

Parallel to infrastructural support, SMEDA, in collaboration with international agencies like Japan International Cooperation Agency (JICA), Deutsche Gesellschaft Fur Internationale Zusammenarbeit (GIZ), Senior Experts Services (SES, Germany), Asian Productivity Organization (APO) and local experts, is providing technical assistance to SMEs in the relevant industrial units to upgrade their skills and improve systems.

During July-March 2011-12, 27 industrial units have been the direct beneficiaries of this

programme; whereas, 16 technical training workshops, seminars and awareness sessions were conducted. Major sectors facilitated under the Industry Support Programme are: textiles (spinning, weaving processing, garments, sportswear and apparel), auto parts, electric fans sector and furniture sector across the country.

The factors that impede development of the SME sector in Pakistan are well-known. However, lack of support of concrete data and quantifiable research are making the task of securing attention of policy makers and key government stakeholders difficult. During 2011-12, SMEDA took the initiative of bridging this information gap through publication of the SMEDA Research Working Papers Series.

### 3.7: Mineral Sector

The production of minerals are important for the growth of mineral based industries due to their use in the other sectors of the economy such as energy minerals-coal; agriculture minerals- rock phosphate, gypsum; construction minerals-limestone, natural stones, pozzolana etc. The most significant benefits to be derived from an expansion of the mineral sector activities are: expansion of employment opportunities; expanding business opportunities for local industries; increase revenue flow to the provincial and federal governments; technology transfer; and regional infrastructure development.

Pakistan has a widely varied geological framework, ranging from Pre-Cambrian to the present that includes a number of zones hosting several metallic minerals, industrial minerals, precious and semi-precious stones.

The government has extended special incentives for mineral development through public and private investment and facilitating private sector to contribute in this sector. To revive industrial growth, a 100 MW power plant was established by using Thar coal deposits based on underground coal gasification, which would convert into 1000 MW power plant. Efforts are for exploration and evaluation of coalfields in Sindh and Balochistan. These studies are aimed at enhancing the coal resource base, supplement power generation, and

substitute furnace oil in different industrial units in the country.

The indigenous problems faced by this sector are inadequate provision of the geological data base, limited mining experience and inadequate capital resources and finally the lack of infrastructure and security in geological promising areas.

The future programmes in the sector are: Reko Diq Cooper Gold Prospects; utilization of indigenous Iron ore resources at Nokkundi and Dilband area; exploring the hidden resources through private/multinational investment and, up gradation/strengthening of Geosciences advance Research labs.

