

THE STUDY OF INDUSTRIAL DEVELOPMENT: A CASE STUDY OF NORTH WEST FRONTIER PROVINCE - PAKISTAN

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ABSTRACT

An attempt has been made in this study to review the industrial development of North West Frontier Province in particular and Pakistan in general. Obviously, the process of economic development can be promoted with the encouragement of industrial sector. For analysis secondary data, obtained from Govt. of NWFP various reports, Directorate of Industries, Commerce & Labour, NWFP, Peshawar (various issues) and Economic Survey of Pakistan (various issues) have been utilized. It has been observed that industrialization promote agriculture sector, generates employment opportunities, brought efficiency in production due to advanced technology, increase national income, increase per capita income, reduce poverty, improve living standard, reduce deficit in balance of payments, encourage trade and increase government revenues. During 2007-08, total numbers of industrial unites were 2254, while in these 1552 were operating and 702 were closed in study area. The findings of the study suggest that supply of electricity may be regularize, fiscal incentives, provision of credit, stoppage of inflow of foreign goods are imperative measures for the promotion of industrial development in the province. Domestic and foreign investors should be encouraged in order to promote industrial development and to accelerate the process of economic development of the country.

INTRODUCTION

The Industrial Revolution is a dramatic change in the nature of production in which machines replaced tools, steam and other energy sources replaced human and animal power, and skilled workers were replaced with mostly unskilled workers. The Industrial Revolution started in England, as it had the technological means, government encouragement, and a large and varied trade network. The first factories appeared in 1740, concentrating on textile production. UK, France, and USA were industrialized first.

At the time of partition in 1947, Pakistan had a small industrial base. The contribution of industrial sector in gross domestic product (GDP) was 7.7% in 1950. The share of the industrial sector in GDP was 11.9% in 1960. The annual growth in large scale and small scale were 8.8% and 7.7% in 2006-07 respectively due to the encouraging policy of the Govt. for the private sector. The Dawn (2010), reported that the NWFP is one of the most backward region and its backwardness is attributed to its geographic location and its political and social structures. Agriculture, tourism, horticulture, tobacco, gas, forest resources, marble and gemstone

industries are the main income-generating sectors of the province. Investors feel hesitation due to bad security situation. Sales, incomes, investment, and credit inflow have been diminished due to these problems. Numbers of industries are either closed or operating below capacity, which increase unemployment and poverty.

Industrial growth has been slowed down due to law and order situation and lack of trained and skilled human resources, and energy shortage. The province faces economic crunch and is dependent for 93 % of its revenue needs on the federal transfers. The provincial GDP is around US\$ 16 billion. However, the informal economy¹ of the province is believed to be three times more than formal economy. The terms of trade between NWFP and Afghanistan are unfavorable. Even Pakistan's bilateral trade was US\$ 1.4 billion, decreased to US\$ 500 million. Smuggling is rising ever since. The province has plenty of hardworking labor force but majority is illiterate and unskilled. Almost 82% of the youth are either unemployed, under employed or self-employed.

According to the study of the Directorate of Industries, Commerce & Labour, NWFP, Peshawar

(2009) there are almost more than 702 units closed or sick and less than 60,000 people employed in the industrial sector: with the withdrawal of the Gadoon incentives and the changing international situation. Sick industries in Pakistan are 163 in Punjab, 702 in NWFP, 345 in Sindh and 122 in Baluchistan.

Sickness in the industrial units is not a new phenomenon as is evident in the developing countries. Even in the industrially advanced countries of the world, varying degrees of sickness are found to occur. There are various causes of industrial sickness such as the use of outdated technology, lack of capital and non-provision of financial assistance, high tax burden, shortage of raw materials, lack of infrastructure, unskilled labour, illegal inflow of smuggled foreign goods, shortage of electricity, marketing problem for locally produced goods, market recession, disruption of production due to political unrest, labour unrest and political instability. Kuznet (1948) pointed out that industrialization as “the permanent growth of the proportion of the non-agricultural sectors within the national economy running with considerable increase of the total industrial production as well as with the spread of up-to-date technology. Kerr (1962) stated that industrialization helps to create an increasing level of general education for all, not only because it facilitates flexibility among the work-force, but also because as incomes rise, natural curiosity increases for formal education. Maizels (1963) reported that industrialization plays an important role in the development of a country by raising income, by generating employment opportunities, by expanding trade and commerce and thereby increase the pace of capital formation and technology changes. Sharma et al., (2008), analyzed that the process of industrialization in a particular region not only influence the economic sphere of human being by increasing income and employment opportunities but it also influences the social and cultural life with increased opportunities for education, better housing, public health and other infrastructural facilities.

NWFP currently needs infrastructure development and money for the revival of sick and closed industrial units CPPR, (2009). The current environment is not adequate for the development of industrial sector in the provinces due to numerous problems including human resources, energy crises, law and order, security, terrorism, and even location issues etc. Meanwhile, there were almost 2,254 industries functional in NWFP, before the extremist insurgence, of which only 1552 are in working and 702 are closed and almost 66129 people employed in those industries but thousands of skilled and semi-skilled workers have been lost their

jobs.

Table 1: Sectoral Contribution to the GDP Growth (percentage)

Years	Sectors			Real GDP (FC*)
	Agriculture	Industries	Services	
	A	B	C	A+B+C
2002-03	1.0	1.0	2.7	4.7
2003-04	0.6	3.8	3.1	7.5
2004-05	1.5	3.1	4.4	9.0
2005-06	1.4	1.1	3.3	5.8
2006-07	0.9	2.3	3.6	6.8
2007-08	0.24	0.45	3.41	4.10
2008-09	1.00	-0.92	1.92	2.00

Source: Economic survey of Pakistan (2006-07) * Factor Cost

Economic survey of Pakistan (2008-09)

Table 2: The Industrial position in NWFP

Year	Number of Industrial units
1977-78	260
1987-88	326
1997-98	624
2002-03	1961
2003-04	1964
2004-05	1967
2005-06	2219
2006-07	2236
2007-08	2254

Source: Directorate of Industries, Commerce & Labour, NWFP, Peshawar (2009)

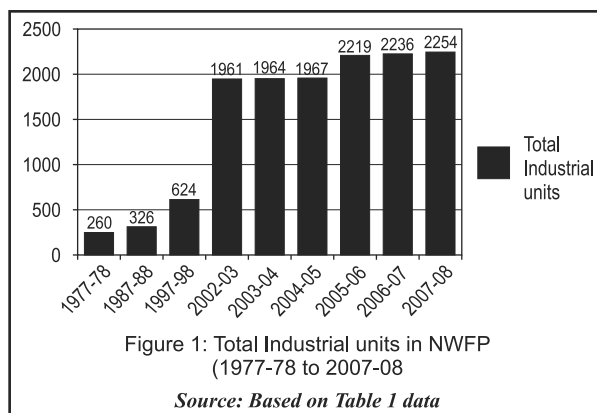


Figure 1: Total Industrial units in NWFP (1977-78 to 2007-08)

Source: Based on Table 1 data

OBJECTIVES OF THE STUDY

The main objectives of the study are:

1. To know about the causes of sickness/shutting down of industrial sectors.
2. To know the importance of industrialization in the socio-economic development of NWFP.
3. Suggest some appropriate measures in light of the findings of the study for promotion of industrial development in NWFP.

METHODOLOGY AND DATA

The study is based on secondary data. The data were obtained from Directorate of Industries, Commerce & Labour, NWFP, Peshawar (2009), NWFP Economic Report (2005, 2007, 2009) and Economic Survey of Pakistan (2008-09) respectively. For the analysis of data, the methods of tabulations, figures and percentages have been used.

INDUSTRIALIZATION AND ECONOMIC DEVELOPMENT

Like other developing countries, Pakistan's economy is though agrarian in nature but intend to go for the industrial development. In fact, industrial promotion is essential for the socio-economic development of any developing country like Pakistan. Promotion of the industrial sector provides wide opportunities for the development of various sectors of the economy. It is general perception that industrial development bring overall economic development i.e., GDP increases employment opportunities expand, per capita income increase, living standard improves, and meanwhile the overall performance of the economy improve. Industrial development is considered imperative as it play an important role in the process of economic development. The contribution of industrial sector to achieve social and economic objectives such as labour absorption including disguised labour, increase per capita income, rural development, poverty eradication and equal economic growth is increasing day by day.

Those countries which still only relied on agriculture sector have remained poor and underdeveloped. Therefore, promotion of industrial is indispensable for the development of developing country like Pakistan. The acceleration of industrial growth is thus a crucial goal for reaching the take-off stage of the Pakistan Economy. The industrial promotion will bring social changes, as the economy change from primarily agricultural indus-

trial urban economy, from a household, family-based economy to an industry-based economy.

Certainly, industrialization² plays critical role in the economic development of country; therefore, it has a key position in all the five-year plans in the national economic development of the Pakistan's economy. Industrialization provides job opportunities to the population in manufacturing sector, technical advancement and capital mobilization and similarly increases improving per capita income and living standard of the society. It is recorded that in gross domestic product (GDP), after agriculture sector, manufacturing sector is the second important sector of the economy contributing towards national income and is valuable source of generation of employment opportunities. Currently, the significance of manufacturing sector has increased extremely because of poverty, rapid growth of population, job scarcity, unemployment, inflation, sluggish economic growth rate, low level of FDI inflows, low per capita income and increase in import bill. Therefore, manufacturing through local and foreign investments in manufacturing sector is the important strategy being followed by the present Government to stabilize the economic base of the economy through a network of industrial units, in large, medium and small-scale industrial units throughout the country, particularly in rural regions of the country.

In general there are a number of advantages of industrialization and positive impacts of it on economic development of a country such as, promote agriculture sector, generates employment opportunities, increased urbanization³, decreased infant mortality rate, increase school enrolment, produced products faster due to advanced technology, increase national income, increase per capita income, reduce poverty, improve living standard, reduce balance of payments deficit, increase in trade and increase government revenues.

FINDINGS, CONCLUSION AND SUGGESTIONS

National economic development is very difficult without the encouragement of industrial sector. Obviously, industrialization provides job opportunities to the population in manufacturing sector, technical advancement and capital mobilization and similarly improving per capita income and living standard of the society. The data demonstrates that currently almost 702 industrial units are sick out of 2254 total number of industrial unit and 1552 units are in working position in NWFP Province. Furthermore, it has been observed that industrial sickness

is due to lack of capital and non-provision of financial assistance, high tax burden, lack of infrastructure, unskilled labour, illegal inflow of smuggled foreign goods, shortages of electricity, market recession and political unrest. In addition, the sluggish growth in industrial development is also because of unwillingness of local and foreign investors.

The findings of the study recommend that supply of electricity may be regularize, fiscal incentives like reduction in taxes, provision of credit, establishment of more export processing zone, re-scheduling of outstanding loan for repayment in easy installments, provision of technical assistance, and stoppage of inflow of foreign smuggled goods are imperative for the promotion of industrial development in the province. For the promotion of industrial growth, small hydro-power generation units should be built. More investment is required in education, particularly in skills training to raise productivity of workers. The authorities should chalk out policies which are more in favour of industrialization. Investors should be encouraged through conducive policies and maintaining peace in the region are equally important for boosting industrialization, and its ultimate results would be improving welfare, and socio-economic development.

END NOTES

1. *An informal economy is refers to those economic activity that is neither taxed nor observed by the government and it is against of a formal economy. The informal economy is thus not included in that national income.*
2. *Changing structure of the economy toward industrial development or the development of industry on an extensive scale*
3. *Movement from rural to urban areas.*

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