

**GOVERNMENT OF PAKISTAN  
MINISTRY OF INDUSTRIES AND PRODUCTION  
P&P WING**

**Apropos Business Recorder 5<sup>th</sup> October 2010.**

**Will the new industrial policy revive manufacturing sector's growth?**

Clarification by MoIP's Task force/Core Group.

**This article is in response to Mr. Tariq Sayeed's recent critique** of the draft industrial policy of the Ministry of Industries and Production (MOIP) in the *Business Recorder* (October 5). He has raised the objection that the new Industrial Policy is essentially a re-packaged version of previous Industrial policies and therefore conforms to the 'flawed' and 'ineffective' principles of Neo-Classical economics promoted by multi-lateral agencies such as the World Bank, IMF and the ADB. He concludes by stating his skepticism on the effectiveness of the policy in achieving the desired objectives of increased manufacturing growth. The following is a detailed rebuttal of Mr. Sayeed's article.

**According to Mr. Tariq Sayeed the industrial policy document** is premised in "vintage neo-classical" economics, which he believes was the underlying paradigm for all policies from 1988–2010. Furthermore he asserts that the concept of market failure has been used in the current industrial policy as the only guiding principle behind government intervention.

**First of all the theoretical underpinnings behind government** intervention stated in the industrial policy are not singularly restricted to the standard neo-classical arguments centered on market failure. There is an explicit mention of the role of the state in industries or sectors which exhibit increasing returns to scale or possess dynamic comparative advantage which could lead to the formation of industrial clusters. This particular rationale for state intervention is based on what is known as co-ordination failure that falls in the domain of Neo-Keynesian heterodox economics. The recognition of co-ordination failure has provided the basis for the recent developments in the literature on New Economic Geography pioneered by the Nobel Laureate Paul Krugman of Princeton University in 1991. Therefore, if anything, the new industrial policy is closer in many ways to the Neo-Keynesian principles as it frequently proposes strategic government interventions which would be an anathema to a neo-liberal economist.

**Also, the new industrial policy is sensitive to spatial inequalities** and proposes balanced economic development which is a marked departure from standard neo-classical prescriptions focused on achieving efficiency in the allocation of resources rather than equity. Since the issues of economic geography and spatial distribution of economic activities have recently come to the attention of academics and policy makers, this industrial policy, in contrast to Tariq Sayeed's cavalier assertions, cannot be dismissed as "old wine in a new bottle".

**Secondly, the critique of neo-classical economics presented by Mr. Sayeed** rests on the perceived inability of the state to implement policies, i.e., government failure is more pervasive than market failure. Ironically, this is a rather hackneyed neo-liberal criticism of state intervention which Mr. Sayeed employs without realizing the apparent contradiction with what he proposes a paragraph or two later – ‘catalytic’ role of the state in industrialization‘ through a ‘symbiotic partnership between the public and private sector’. What Mr. Sayeed has failed to understand is the important distinction between policy formulation and implementation issues. In principle policies which are forward looking should not be determined by the present capacity or ability of the state to deliver these. If that were the case, Pakistan should have abandoned policy making a long time ago. A positive approach is to address the capacity issue directly by formulating effective institutional mechanisms of implementation rather than limiting policies on the basis of existing state capabilities.

**Mr. Tariq Sayeed in his article states that the Industrial Policy** ‘laments the limitation of policy space’ and ‘arbitrarily assumes that nothing can be done to widen the scope for policy intervention.’ A more thorough reading of the policy would have revealed to Mr. Sayeed the recommendations put forward to enhance policy space. For example, the promotion of knowledge based industries through the construction of a full scale Science Park which would allow the government to circumvent certain WTO regulations has been completely overlooked. Moreover, the use of Non-tariff Barriers in trade such as standards and quality compliance as effective ways to create policy space seem to have also escaped his attention.

**The most erroneous, unsubstantiated and irresponsible remark of Mr. Tariq Sayeed** is that “the specific policy recommendations can all have been lifted verbatim from a standard World Bank Industrial Sector report.” He then goes on to stress the need for a home grown policy as opposed to what he has imagined to be a document straight out of the offices of the World Bank. First of all it is apparent from these remarks that Mr. Sayeed is ignorant of the fact that for decades the World Bank has opposed activist industrial policies in developing countries. For instance, Dani Rodrik who is a Professor of Economics at Harvard University recently stated that “the World Bank, after decades of consensus that industrial policy does not work for developing countries” is now realizing the merits of industrial policy.

**With regard to whether this policy is home grown or not, it would suffice** to mention here that the sector specific policy interventions have been derived through a three month long stakeholder analysis which entailed firm level value chain analysis, surveys and interviews of various industrial associations in the country and secondary information available on specific sectors. Also, the draft industrial policy was presented to ten different chambers of commerce and industry across the country in order to solicit the views of the private sector and create the necessary ‘buy in’. The comments and suggestions received from these interactions have been factored in the policy document. Although all this was mentioned in the Industrial Policy document, it was either

conveniently overlooked by Mr. Sayeed or he has some other definition of a 'home grown' policy.

**Mr. Tariq Sayeed is all praise for the successes made in the Ayub Khan's era**, when PIDC, PICIC and IDBP were established to nurture industrialization at a time when the business community was risk averse and hence not willing to convert their merchant capital into industrial capital. To address this co-ordination failure, the government had to directly intervene and use foreign loans to subsidize the industry. Ayub Khan's government adopted a number of other policies to support industry, e.g., tariff walls, licensing and quotas, bonus-voucher schemes, etc. Although these policies fostered industrial growth, they exacerbated wealth concentration and resulted in uneven development across provinces and across spatial units. The literature is replete with criticism of the economic policies of the Ayub Khan's era including the ones that Mr. Tariq Sayeed subscribes to.

**After fifty years, the ground realities have dramatically changed:** the government must step in to promote industrial growth by both restructuring old industry and facilitating the creation of new industry while being sensitive to spatial inequalities in economic activity. It was rightly pointed out that the government should play "a catalytic role" just like in the late industrializing countries, however, there is a limit to what the government can and cannot do. Government intervention in China, Korea and Japan has not always been a success. Therefore there is no standard recipe for a successful industrial policy: excessive government interventions may bring some successes, but it may also bring expensive failures. On the other a 'laissez faire' approach promoting the unfettered working of the market has not been adopted by any country which has successfully industrialized. However, what has been a common feature in all these countries is an evolving and flexible Industrial Policy – that is an Industrial policy which is not a 'one off' but a process involving institutionalized interaction of the private sector and the state/policy makers. In this respect the new industrial policy is the first of its kind which has been formulated through a fairly rigorous consultative process backed by the latest concepts and ideas within the discipline of economics. **Labeling this as a repackaged industrial policy is therefore a gross misinterpretation of the document.**