
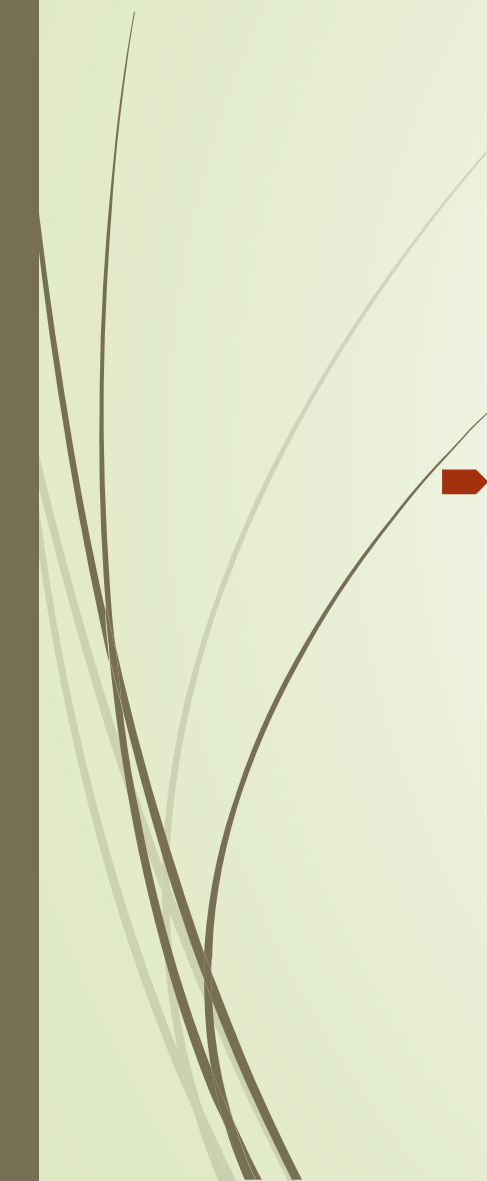



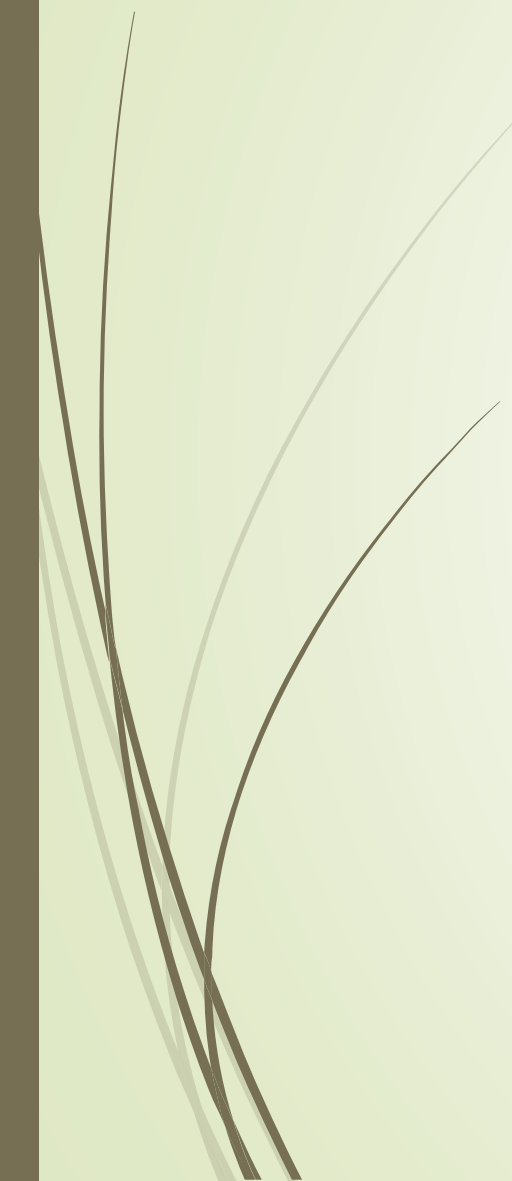
**Formulating an Industrial Policy to
Reverse the Resource Curse and Sense of
Exclusion of the Smaller Provinces.**


**Presentation at the Pakistan Academy of
Engineers (PAE)**


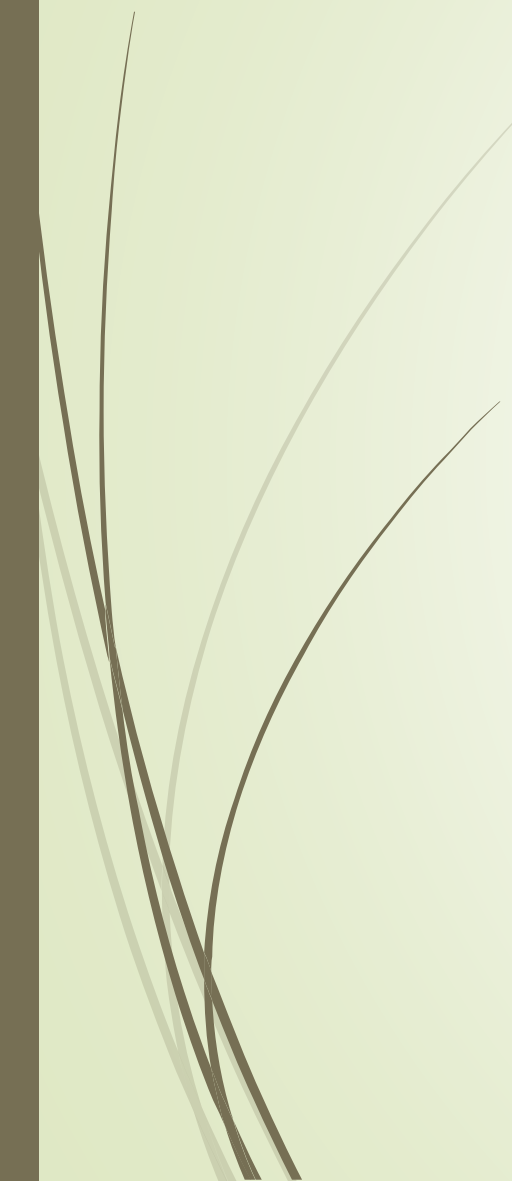
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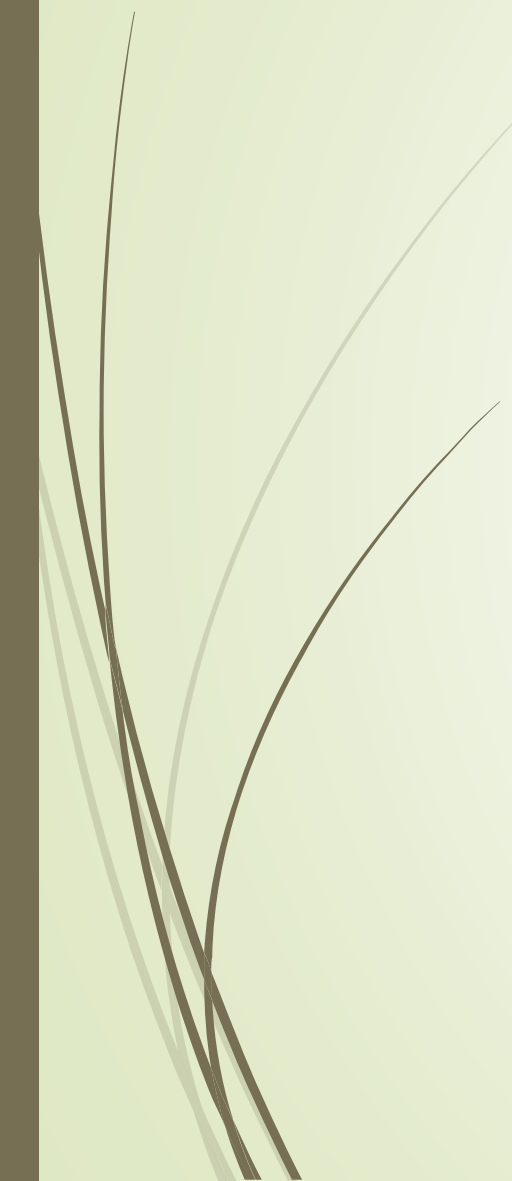
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- The causes of industrial decline in Pakistan need to be addressed on an urgent basis, if we are to get out of the quagmire in which we find ourselves today. The whole gamut of policies towards industry need to be evaluated and changed radically if we still want to salvage industry in this country. We also need to move away from textile industries.
 - Baluchistan, Khyber Pukhtoon-Khwa (KPK), Kashmir and Northern Areas are resource abundant regions of Pakistan. We have abundant energy, fuel and mineral resources, but these have not been exploited due to poor management, corruption and vested interest.


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- Pakistan has enormous renewable and non-renewable energy resources. We have more than 436.2 million barrels of oil and 31.3 trillion cubic feet of proven gas reserves. Our current oil production is 65,997 barrels per day, while gas production is 4 billion cubic feet per day.
 - Gold and copper are also found in abundance in Balochistan. We have the world's second largest coal deposits of 185 billion tons, equivalent to 618 billion barrels of the oil rich Gulf countries. We have the second largest salt mines, second largest coal reserves, fifth largest copper and crude oil.


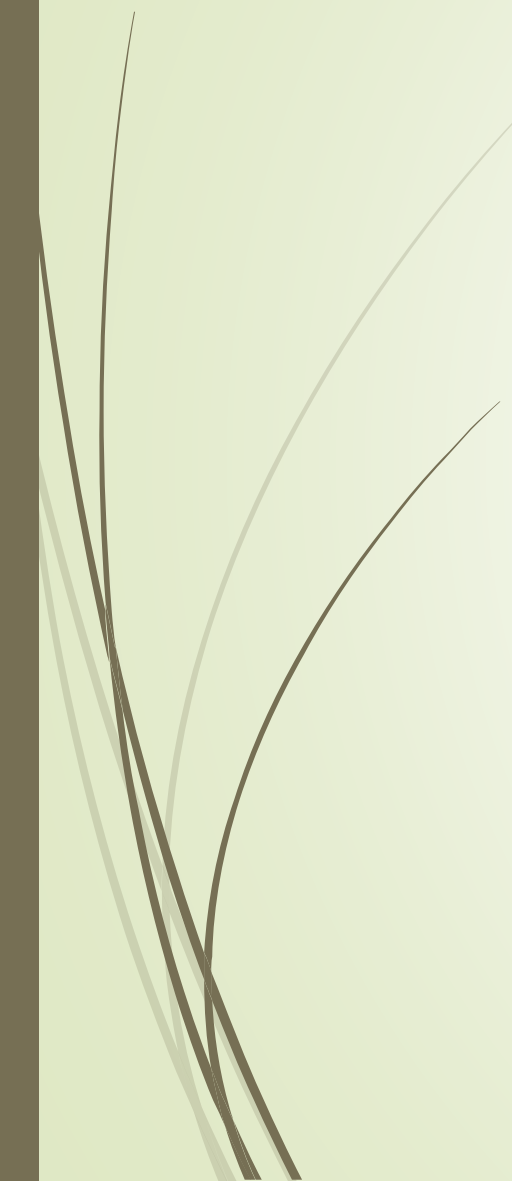
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- The agreement for Saindek entailed export of raw gold and copper from Pakistan to China.
 - The Reko Diq area in Baluchistan has large copper and gold reserves. The PTI government signed an agreement with Barrick Gold for Reko Diq.
 - According to available information the export of finest quality clay in Nagar Parker has been awarded to a country for 100 years at zero royalty.
 - Pakistan's pink rock salt is being exported to India (and Israel) at very nominal rates who add value to it and earning foreign exchange.

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- There are reports that brine from the Khewra salt mines is being given free of cost to a British multinational co.
 - Similarly, water which is a scarce resource is being given free of cost to another multinational company along with land leased free of cost in Karachi.
 - These are just a few examples. There are innumerable such cases where Pakistan's precious natural resources are being given free of cost to rich countries and their companies. This is causing a lot of resentment in the location populations in Balochistan, KPK and Northern Areas.

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- We have identified three serious problems afflicting the economy of Pakistan. One is the problem of loot and plunder of our natural resources. This problem is giving rise to under development of the smaller provinces and a sense of exclusion of the local population. The third problem is the decline of industry, de-industrialization rendering several lakhs to the pool of unemployed.
 - We need to combine these problems Pakistan is facing and try to use industrial policy to remove them simultaneously.
 - Moreover, even during the 1960s when we used industrial policy very effectively, the tendency to produce a wide range of commodities and the grant of across the board fiscal incentives created imbalances.

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- ▶ Formulating an industrial policy for the future necessitates that we evaluate our strengths and weaknesses objectively and dispassionately. Both the principles of static and dynamic comparative advantage should figure in such a policy formulation.
 - ▶ The industrialization of the under-developed areas should initially be based on the static comparative advantage of these areas. Such industrialization can be reinforced with industry-cum-area specific fiscal incentives. This will ensure a viable industrial structure in the rural and hitherto under-developed areas. At the same time, a dynamic comparative advantage should be nurtured in selected industries at the national level.

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- ▶ Extreme care needs to be exercised in the choice of these industries. First, these should be a select group of industries and not a multifarious lot. Second, the country must possess some strengths in these industries. Third, the income elasticity of demand for the products of these industries must be high. This is how we can construct a viable industrial structure in Pakistan.
 - ▶ Sharing the consensus in the literature on natural resources and growth we find that countries that export their fuel, ores, stones and minerals in raw form are afflicted by the resource curse, while countries that establish industries that use these resources as inputs are not afflicted by the resource curse.

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- ▶ I would, therefore, suggest that instead of exporting gold, copper, stones and fuel from Balochistan, KPK, Kashmir and Northern Areas in raw form, we should establish industries that use gold, copper, minerals, fuels and stones, etc. This will not only provide employment to the local people and generate incomes, it will also reverse the resource curse and bring prosperity, nipping in the bud attempts to alienate the people of smaller provinces against the state.



Thank You!