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18

**INDUSTRIAL DEVELOPMENT IN PAKISTAN**

**HS-105**

**TC-61, TC-55, TC-45, TC-11, TC-66**

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| C:\Users\Zubair\AppData\Local\Temp\ksohtml\wps8535.tmp.jpg  Industrial development in pakistan  Limitations in the Development of Industrial Innovation in the Region | Abstract  A country’s long-term economic development depends upon the types of products it produces and exports. The East Asian countries (EACs) realized the importance of this fact long-ago and designed their industrial policies accordingly. In their case, a clear long-term vision of industrial and technological catch-up with the developed world was present. Thus, these countries gradually moved up the industrial ladder and developed capabilities for the production of more complex and sophisticated products. This, in our view was the most important reason for their phenomenal economic performance.  The ability of a country to diversify its exports critically depends upon the kinds of industries that country specializes in. This has been the fundamental reason that Pakistan has been unable to diversify its export structure into higher value-added products. This acts as an important reason for Pakistan’s unstable economic growth. Therefore, we argue that Pakistan should develop productive capabilities in those sectors which have a higher scope for diversification as well as innovation.  TC-61, TC-11, TC-45, TC-55, TC-66  HS-105 |

**CHAPTER 1**

# (Ali Ahson TC-061)

**A BRIEF HISTROY OF INDUSTRIAL DEVELOPMENT**

**IN**

**PAKISTAN**

Since the Industrial Revolution, industrialization has been regarded as essential for a country's rapid development. The countries that solely rely on agriculture have remained poor and underdeveloped, whereas the nations that gave priority to rapid industry growth to industry achieved high rates of development. The advanced countries of the world, America, Germany, Great Britain, Japan, and Russia, encouraged industrialization on large scale. The advantages of technological change were channelled into agriculture. They developed industry, which also brought a revolution by mechanizations in the agricultural sector. Their national incomes increased. Their balance of payments was considerably improved. There was an increase in employment. The countries achieved balanced growth in various sectors of the economy

At the time of independence, Pakistan had only inherited 34 industrial units out of the 921 total units in the sub-continent. The units mainly being cotton textile, cigarettes, sugar, rice husking, cotton ginning and flour milling industries, contributing to a total of 7% only to the GDP of Pakistan, with only giving employment to a little over to 26,000 employees.

In the early years of Pakistan ( from 1947-1958 to be precise), the politically immature country, which saw 8 prime ministers within a 11 years period, did not gain a single leader who was strong enough to pursue the industrial policy. Even though the government had established a committee *(****Pakistan Industrial Finance Corporation (PIFC)*** and ***Pakistan Industrial Credit and Investment Corporation ( PICIC)***all formed in 1948) to formulate industrial policy which emphasized on manufacturing industries, reduction of imports, and net social and economic advantages to the country.

However, steps were taken to advance, such as ***Swedish-Pak Institute of Technology*** established in 1955 to create skilled labor, and ***Pakistan Industrial Technical Assistance Centre (PITAC)*** established in 1956.

When the military government of Ayub Khan gained power to Pakistan in 1958 a new industrial policy was announced in 1959 due to which the industrial sector of Pakistan gained a massive growth. The renewed industrial policy emphasized on the private sector and the development of agro-based industries. During this phase the government gave importance to the capital goods, i.e., electrical, chemical, mechanical tools, etc. Various types of funds were set aside in order to promote the industrial development in the country.

1973, the era of Bhutto, the new democratic government adopted the principles of mixed country, during which 34 industrial units were nationalized, which included the following:

Vegetable oil and ghee industries ( 26 industrial units), shipping industry, iron and steel industry, basic metal industries, heavy engineering industries, manufacturing of automobile, tractor plant, petro-chemical industries, cement industries, public utilities including electric generations, gas and oil

Management of the following nationalized industries where put under the ***Board of Industrial Management (BIM)*,** along with the establishment of ***(PIDC) Pakistan Industrial Development Corporation.*** Other reforms taken at that time included; Labor reforms, reductions of sales tax on imported items, revision of import policy and the establishment of industrial unit in rural areas.

In 1977, the new martial law government lead by Zia-ul-Haq came into power and declared the reversal of nationalization policy implemented by the last government by introducing a new industrial policy. The denationalization was done by offering the transfer of shares of the nationalized industries to their former owners, under ***Economic Reforms order 1978.*** Following measure was taken in order to boost the industrial development; Interest rates reduced to 12.5% by banks on all fixed investments, and tax removal on bonus share. Along with these reforms, the federal government revised the import policy and announced tax holidays.

After the martial law ended in 1988 Pakistan faced the worst political conditions from 1988 to 1999 and two government came into power twice ( **Peoples Party Pakistan** &**Muslim League Noon**), both were unable to govern the country for more than over three years, because of these conditions industrial policy were not on the top priority list. Although Nawaz Sharif slightly emphasized on infrastructural development, he was interrupted by the bloodless coup d’état by Musharraf in 1999.

The real boom of industries came the in the first decade of the twentieth first century. Pakistan faced greater of cheaper goods imported under the ***WTO*** agreement. The highlights of industrial policy in this phase are as below;

1. ***Deletion Policy:*** Although this policy was announced in 1987 but was also pursued by the upcoming governments in the later phase. The objective of deletion policy was to obtain self-reliance in the engineering sector
2. ***Deregulation Policy:*** Almost the whole industrial sector was exempted from the requirements of government sanctions except:
3. Arms and Am munitions
4. Security printing/ currency
5. High explosive
6. Radioactive substances
7. ***Privatization Policy:***  This policy was adopted and is still being implemented as it lowers the financial burden on the government and the slack of resources. The objective of this policy is to improve the overall performance of the state-owned industries and promote a healthy competition.

Industrialisation reduces dependence on agricultural exports to earn badly-needed foreign exchange. An industrialized nation is always economically stronger and thus capable of defending itself against any aggression. Most of the present economic problems in Pakistan are ultimately linked to the slow place to industrial development. Rapid industrialization is considered by the economic experts as the sovereign remedy to put our economy on a sound basis.

***“It is only with united effort and faith in our destiny that we shall be able to translate the Pakistan of our dreams into reality.”***

***Muhammad Ali Jinnah***

**CHAPTER 2**

# (Kevin Ahston Patrick TC-045 & Hammad TC-066)

**CURRENT ISSUES AND CHALLENGES FACED BY PAKISTAN IN THE INDUSTRIAL SECTOR**

Pakistan, a country located in the South of the world’s largest and the most populous continent, Asia, has a population of around 200 million. It has a geo-strategic location and an immense array of natural endowments. The country also has the required human resources. Basically, it has all the potential to grow into a well developed industrial nation.

But, unfortunately it still hasn’t. It is still regarded as a developing nation after almost 60 years since gaining independence from British India and a status as a sovereign state.

There are many issues and reasons which suppress the growth of industries, belonging to the private and government sector both.

1. ENERGY CRISIS:

One of those many reasons is the energy crisis that is a major problem faced by the entire population that resides within Pakistan. Upon many speculations and researches, Syed Fazl-e-Haider, mentions that the state of Pakistan faces an “energy emergency” in an article that he wrote for blog.pakistaneconomist.com. He wrote this article on the 8th of February in 2018. The term “energy emergency” is a term which basically means ‘a lack of fuel or the imminent discontinuation of energy services supplied that will endanger health, safety, or welfare. ‘– Source- (defined term.com). The load shedding of natural gas is a common example which can be used to define the term energy crisis. Gas load shedding is a common exercise practiced in the major industrial cities of Pakistan. Although Pakistan has been blessed with natural gas reserves, “Sui Gas”, the largest natural gas field located at Sui, Baluchistan but years of mismanagement, lack of strategic vision, limited investments in energy sector and inadequate exploration of these gas reserves have led to shortage of natural gas in Pakistan. “The officials have projected a gas shortfall of 10.34 billion cubic feet per day by financial year 2015. The country’s demand for energy, according to one estimate, is expected to rise at the rate of 10-12 percent annually in the foreseeable future, which means that if this rate of increase continues, demand for energy may well double before 2020.” –Source-(blog.pakistaneconomist.com). Although the number of industries which are regarded as progressive and successful is quite marginal, the energy crisis that Pakistan experiences could result in the closure and disruption of even more industrial units.

This could further increase the unemployment in the country which is already going up at an alarming rate. According to certain econometric models, the rate of unemployment may as well be as high as 5.70 percent by the year 2020.

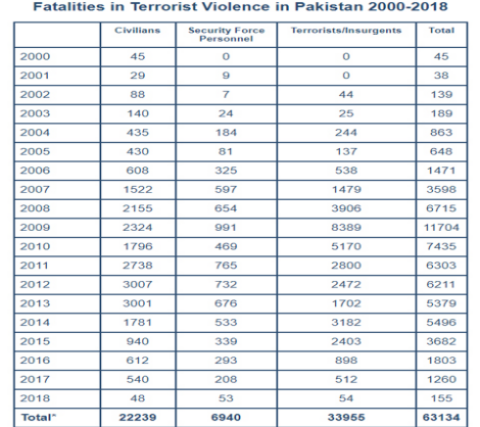
The Gross Domestic Product of a country is defined as the total number of goods produced and services provided in that country during a year. A number of statistical researches have also shown that the country is losing at least 2 percent of the GDP (Gross Domestic Product) annually due to power shortages.

2. INTEREST RATE:

Another major problem that hinders the progress of the development industry is the ever increasing interest rate of the country. The government has maintained one of the world’s highest interest rates, preferably under pressure from the IMF. This is because of many reasons which include terrorism, falling foreign investments and a decrease of the Gross Domestic Product.

TERRORISM:

Terrorism inflicts heart breaking loss of life and costly destruction of property. What it also does is have a negative impact on a countries economy. [Subhayu Bandyopadhyay](https://research.stlouisfed.org/econ/bandyopadhyay), a research officer and economist at the Federal Reserve Bank of St. Louis wrote, “This sense of vulnerability is particularly damaging to trade or foreign direct investment (FDI) because foreign nations always have a choice of conducting business with less-terror-prone nations.”



FALLING OF FOREIGN INVESTMENTS:

Foreign investors have continued to stay away from Pakistan as they are reluctant to make long-term investments in the face of ambiguity about the new economic policies of the newly elected PTI government.

Foreign Direct Investment (FDI) dropped 55% to $161.2 million in October 2018, compared with $354.6 million in the same month of last year. This was reported by the State Bank of Pakistan (SBP) on November 15, 2018.

GROSS DOMESTIC PRODUCT (GDP):

The real GDP growth averaged at 3% against the required rate of 7%, according to the Economic Survey of Pakistan.

This has not only caused an increase in the interest rate but it has caused the investors to fall into a heap of disbelief.

An increased interest rate has not only made doing business expensive and hence difficult, but it has also marginalized the private sector. High borrowing costs discourage the demand for private sector credit, which in turn decreases the private sector adversely affecting the prospects of economic growth.

**CHAPTER 3**

(Hammid TC-011)

# **PAKISTAN CURRENT INDUSTRIALLY PRODUCED GOODS**

Principle Factory Industries in Pakistan

Pakistan had an almost negligible industrial base at the time of its creation in 1947. In the past 50 years, the country has undergone a structural change from a purely agrarian economy to a semi-industrial state. Pakistan has developed many consumer goods industries. Heavy industries like iron and steel, ship building, fertilizer and chemical industries have also been developed.

* **Cotton Textile Industry**

Cotton textiles is Pakistan’s largest industry. It provides employment to 50% of the industrial labor force. It has been developed at various locations. Karachi, Hyderabad and Faisalabad are the main centers of the cotton textile industry.

Raw cotton, cotton yarn, cotton cloth, ready-made garments are all exported to many countries as well as being consumed domestically.

**Importance of the Cotton Textile Industry for Pakistan**

1. The textile industry is the largest and the most important sector of the economy. It comprises cotton yarn, cotton fabrics and finished goods, like towels, hosiery, knitwear and ready-made garments.
2. It possesses great export potential and textile products from nearly 60% of total exports.
3. The sector provides employment to a large number of people.
4. It contributes approximately 7%of the GDP to the national exchequer in the form of indirect taxes.
5. Cotton textiles are value-added products and they earn more foreign exchange than raw cotton.
6. It meets the domestic demand of cotton products.

**Problems/Disadvantages of Cotton Textile Industry**

This industry has been under tremendous pressure in recent years. The problems are:

1. Shortage of raw material due to the leaf-curl virus in four consecutive years
2. Recession in the international market
3. Strong competition from South Korea, Egypt, Taiwan, Hong Kong, Thailand
4. It needs further modernization to sustain it in the international market
5. It requires more capital/ investment
6. Shortage of water reduces raw material for cotton industry

The government has introduced various incentives to enhance the supply of raw cotton and the competitiveness of the textile industry. It has supported the industry through the Economic Review Programme 1997 and radical reforms in the tax regime.

* **Sugar Industry**

The sugar industry is one of the vital industries. Sugar is mainly made from sugar-cane. Sugar mills are located in Punjab, K.P.K and Sindh. Baluchistan does not have any sugar mills. Sugar mills have to be located near the sugar-cane fields because:

* Sugar-cane starts losing its sugar content as soon as it is harvested. It needs to be crushed immediately.
* Sugar-cane is bulky and heavy and so it is expensive to transport.

**By-products** of the sugar industry and their uses:

* **Bagasse:** can be used as fuel in sugar mills, used to make chipboard, paper and animal feed.
* **Molasses:** used to manufacture various types of acids in the chemical industry.
* **Fertilizer Industry**

Chemical fertilizers have considerably increased since the **Green Revolution** in the 1960s. Fertilizers are very important for increasing agricultural production. Various raw material e.g. sulphur, phosphate, gypsum are used to make different types of fertilizers. After its discovery in Pakistan, natural gas became the main raw material.

Faisalabad and Daud Khel in Punjab, Haripur in K.P.K and Dharki in Upper Sindh are the main locations. After 1977, a number of fertilizer projects were completed. The Pak-Arab Fertilizer Factory at Multan started production in 1979.

* **Cement Industry**

There are many favorable factors for the development of cement industries locally:

* Availability of raw material (limestone and gypsum),
* Good domestic market with high demand from the construction industry,
* Natural gas is used as a cheap fuel.

In recent years, however, the price of cement has shown an upward trend because of the rise in demand and the impact of the fiscal policies of the government.

* **Steel Industry**

The establishment of a steel industry is considered to be a milestone on the road to industrialization. In the early years the emphasis was on the production of consumer goods. However, in the late 50s, the establishment of the steel industry was considered essential for industrial development. Finally, the **Pakistan Steel Mill** **Corporation**, with technical and financial assistance from the USSR, was established on December 30, 1973 at Pipri.

Pakistan Steel provides raw materials to the engineering and construction industries. These industries depend on Pakistan Steel’s products and by-products as inputs.

The products of steel mills are coke, pig iron/ hot metal, rolled and cast billets, galvanized products and raw steel.

The **Heavy Mechanical Complex** Ltd. (HMC) was established at Taxila in 1979 with Chinese assistance. It is the major heavy engineering center of Pakistan, which has the capability for the designing and manufacturing of industrial plants and machinery.

The **Heavy Forge Factory** (HFF) at this complex has also been proved crucial for Pakistan’s defense production needs.

Cottage / Craft and Small-scale Industries in Pakistan

Cottage or household industries hold an important position in the rural set-up. Most villages are self-sufficient in the basic necessities of life. They have their own carpenters, blacksmiths, potters, craftsmen and cotton weavers. Many families depend on cottage industries for their income.

Cottage industries have also gained immense importance in cities and towns. There is great demand for hand-woven carpets, embroidered work, brassware, rugs and traditional bangles. These are also considered important export items and are in good demand in international markets.

* **Sports Goods Industry**

The sports goods industry, located in Sialkot, is one of the main medium/ small industries, which is export-oriented.

The industry uses raw material such as rubber, wood pulp, stitching thread, leather etc., from brand name companies, both local and imported from Japan, Korea and England. These enterprises are financed mostly through family savings.

The sewing is done mainly in small workshops manually and only the final stages of production are done in factories which mostly work for foreign firms.

* **Surgical Instruments Industry**

The surgical instruments manufacturing is located in the cities of Sialkot, Lahore and their ancillary areas. It’s been nearly a hundred years that the people of this region are manufacturing surgical instruments. The industry has transformed from a very small level and low technological base to a highly sophisticated level.

In the late 1940s, the industry got some export orders from Egypt and Afghanistan worth a few thousand dollars. Currently more than 95% of the instruments manufactured in Sialkot are exported to other countries. The surgical instruments sector, if considered a sub-sector of the light engineering sector, contributes about 70% to the total exports of this sector.

* **The Brick Kilns Industry**

Brick making is an important industry to Pakistan – providing employment in rural areas where agriculture may not be enough to sustain all the people. Brick kiln workers have to work in extremely difficult conditions under the scorching heat of the sun, sometimes reaching more than 20 degrees Celsius. **Child labor** is a major issue in this industry. These children are our future and we are burning their future away with the coal in the firing kilns.

**CHAPTER 4**

# (Haseeb Ali TC-055)

**ISSUES FACED IN THE DEVELOPMENT OF INDUSTRIES**

Industrialization is regarded essential for rapid development of the country. The countries which merely rely on agriculture have remained under developed countries, whereas nations which developed industries achieved high rates of development. The advanced countries encourage industrialization on large scale and transferred advantages from agriculture. Pakistan at the time of partition in 1947 has negligible industrial base. The government has been utilizing all available resources for rapid development of the manufacturing sector.

Pakistan has a growing semi-industrialized economy that relies on manufacturing, agriculture and remittances.

Although since 2005 the GDP has been growing an average 5 percent a year, it is not enough to keep up with fast population growth. To make things even worst, political instability, widespread corruption and lack of law enforcement hamper private investment and foreign aid.

“***It is necessary to accept as conditions of survival in the modern world. The most*** i***mportant of these is the growth of industrialism. The power of Russia and the United States in the present day is due to their supremacy in this respect***”.

Right now, Pakistan’s GDP is 5. which is also not remarkable. There are many issues which Pakistan Is facing in the development of industries. Which are mentioned below?

**Issues Confronting the Industrial Sector of Pakistan**

a) Economic Issues  
Energy crisis  
huge bank spread  
Under-utilization of national resources  
Lack of infrastructure

b) Social and geographical issues  
Marginalized role of women

Lack of education

Climate  
Overpopulation  
Corruption

c) Political Issues  
Terrorism  
Flawed policies  
International isolation  
Wars with India

Burden with refugees

Kashmir & water issues

d) Historical issues

Captured area

Backwardness of Muslims

Few industries in this area

**Economic Issues.**

What economy is? Economy is production and consumption of goods and services and the supply of money. The infrastructure required for the growth of industries is inadequate. For the foster mobility of labour, capital, transport and communication facilities are in sufficient. It is obstructing expansion of industries in Pakistan.

The amount if capital required in the capital intensive industries like steel, iron, chemical and automobiles quite high. Huge capital is also required to establish and expand industries like textile, carpet, sugar and paper etc. Most of exports are comprised of raw material, while our main imports are machinery, petrol which requires heavy foreign exchange. Due to shortage of foreign exchange, less imports of machinery, this leads to less development of industries.

Now days due to inflation people have low level of income that’s why they demand less industrial goods, it obstructs industrial development. There is also shortage of power like electricity and gas due to which many industries are shutting down. There is less foreign investment in the country due to terrorism which is also the main hurdle in industrial development. Due to recent flood, the economy of the country is going worst. Therefore, people do not take risk to invest in Pakistan.

**Social and Geographical Issues.**

On the one hand there is less awareness to invest in large scale industries due to lack of education and information. On the other hand the capital intensive industries require highly qualified professionals which are in lack of Pakistan. So low industrial development.

Pakistan has extreme climate. Sometimes we have drought and other time heavy rain and flood. Moreover, most of the land is covered with mountains and deserts.

In Pakistan, women do not take interest in industrialization somehow it is due to less family support and religious matters, in order to develop industries role of women is necessary.

**Political Causes.**

There have been frequent changes in government since 1947 in Pakistan due to which local and foreign investors hesitate to invest in long term projects. Kashmir issue has been a bone of contention between Pakistan and India since independence. People remain frightened about the war between both countries. This situation leads low investment. The government of Pakistan nationalized industrial sector in 1970s. People still fear that the government may once again nationalize the economy. Therefore they invest less.

**Historical Causes**

The British collected raw material for their industries from subcontinent on the one hand, on the oilier; they captured this area for final products.

The areas with Muslim majority were kept backward to favour Hindus. The few industries, which were setup in India, were in coastal cities of Calcutta, madras and Bombay. Raw material and skilled labour were not available in the area that is now in Pakistan.

**PERFORMANCE OF PUBLIC INDUSTRIAL SECTOR**

The performance of public industrial sector is the role of PIDC, so we review the role of PIDC.

**Role of PIDC:**

Pakistan industrial development corporation (PIDC) was established in 1952. It was the only public sector involved in manufacturing. It established industries in backward areas, created employment opportunities and reduced regional disparities. By June 1972, it had established 60 industrial projects. The nationalization of industries under the economic reforms order affected the performance of PIDC. A number of important and profit yielding projects were transferred to other corporations under the Presidential Ordinance No. v of 1974. PIDC was left with only 8 projects out of 60, which were not profit making.

**Privatization of Industries & Companies.**

The government of Gen. Zia-Ul-Haq on 16th July 1988 issued Disinvestment Ordinance and a National Disinvestment Authority was created under the chairmanship of

Aziz Zulfiqar. A privatization commission was formed on July 22, 1991 to formulate recommendations for privatization and deregulation. In the initial phase MCB, ABL had been privatized.

Government of Pakistan has privatized many industries some of them which are in my knowledge are PTCL (Pakistan Telecommunication Company limited), KESC which is now known as KE (Karachi-Electric) has also privatized. PIA (Pakistan International Airline), Pakistan Steel Mill is also at the door of being privatized as they are also going in loses.

**CHAPTER 5**

**Government Industrial Policy since Independence**

**Industrialization and the Private Sector in the early years (1947-71)**

After 1947, the private sector was reluctant to invest in capital intensive industries. The Pakistan Industrial Development Corporation (PIDC) was established to invest in industries in which the private sector was reluctant. PIDC was successful in establishing many large-scale industries (fertilizers, textiles, cement, chemicals, paperboard, and sugar).

Later, PIDC transferred some of their projects to the private sector when the risk was reduced. This policy encouraged the private sector and stimulated industrial activity during the 1960s.

The performance of the private sector in the development of industries was encouraging. During the 60s, the country became self-sufficient in most of the agro-based industries. This period is known as the **‘Era of Industrialization’**.

**Nationalization of Industries (1972-77)**

In 1972, adopting the principle of ‘nationalization’, there was a major change in government policy. This transfer of 10 basic industries to the public sector inflicted heavy blows to the private sector **(Fig. 5.1)**.

Since the nationalization of industries in 1972, the pace of industrial development has remained slow. The uncertain policies of the government reduced the level of investment in the private sector. Foreign investors were also reluctant to invest. The investment climate for the private sector was not favorable.

|  |  |
| --- | --- |
| **Private Sector** | **Government Public Sector** |
| **Industries Nationalized** | **Board of Industrial Management Corporations** |
| Iron and Steel industries | * Federal Chemical and Ceramic Ltd. |
| Basic metal industries | * Federal Light Engineering Corporation. |
| Heavy engineering industries | * National Design and Industrial Services Corporation. |
| Heavy electrical industries | * National Fertilizer Corporation of Pakistan Ltd. |
| Assembly & manufacture of motor vehicles | * Pakistan Automobile Corporation Ltd. |
| Heavy and basic chemical industries | * Pakistan Steel Mills Corporation. * Pakistan Industrial Development Corporation. |
| Petrochemical industries | * State Cement Corporation Ltd. |
| Cement industries | * State Heavy Engineering & Machine Tool Corporation Ltd. |
| Public utilities | * State Petroleum Refining & Petrochemical Corporation Ltd. |

**(Fig. 5.1)**

**Denationalization (1977-88)**

In 1977, the government reversed its industrial policy. The Martial Law Government gave assurances that no further industries would be nationalized. Many of the nationalized industries were given back to their former owners.

**Privatization (1988 onwards)**

The privatization of State Owned Enterprises (SOE) has been promoted since 1991. The policies of liberalization and deregulation are followed all over the world.

**Objectives of Privatization:**

1. To create better opportunities for the private sector for expansion and modernization.
2. To improve productivity and profitability.
3. To reduce the burden on the government’s economic resources.
4. To facilitate economic activities for the private sector.
5. To achieve more rapid industrialization.

**CONCLUSION**

We can conclude that manufacturing is the third sector of our economy and it is the backbone of any country. It plays a very important role in the economic development of a country. Pakistan has been a backward country in industrial sector due to different historic, political and economic causes. For the revival and growth of the industrial sector, these problems should be solved. The law and order situation must be improved. The security of capital must be assured and the degree of bureaucratic control to be minimized. A clear cut policy should be chalked out for the local and foreign investors. The industrial growth can further be accelerated by installing new factories and providing maximum incentives to the working community.

***Bill Gates said, “I‘ll win this world at a single decade.”***

***I believe if Bill Gates could win the world at a decade then why not we…???***

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