

CAUSES OF INDUSTRIAL FAILURE AND ITS IMPLICATIONS IN NWFP

Muhammad Tariq* and
Jehangir Shafi**

ABSTRACT

The North West Frontier Province is the smallest province in terms of area, amongst the four provinces, and the third largest in terms of population. The contribution of industrial sector towards the socio-economic development of the province is not significant. It is horrifying to note that about 1145 industrial units have been closed, which has given birth to many social vices like phenomenal increase in smuggling, narco-trade and indulgence of jobless youth in illegal commercial ventures. The main reasons attributed to these closures are inconvenient locations, (away from the seaport), non availability of skilled labor, inconsistent government policies, dearth of local capital, lack of proper infra - structure and comparatively poor law & order situation, due to Afghan War, etc. This paper will cover the aforesaid areas in detail and suggest the possible remedial measures.

INTRODUCTION

The North West Frontier Province (NWFP) of Pakistan extends from latitude 31° 4' to 37° 8' north and longitude 69° 16' to 74° 7' east. The approximate area of NWFP is 74,521 sq. km, with population above 17 million. Density of population is 236 people per square kilometer. The province is shut off from Diamer District of Northern Areas in northeast, Federal Administered Tribal Areas in west, Punjab in southeast and Azad Jammu and Kashmir in northeast.

The province is bestowed with rich natural resources, a hardworking population and immense opportunities for investment. However, industrially the province is backward and its share in the total installed industrial units is just 7.5 percent. Industries in NWFP could not contribute significantly to the economic development of the country. Majority of the industrial units are not working, for one or the other reasons. As economic development without industrialization is a dream, accelerated industrialization is considered by most developing countries as the key to rapid economic development and social prosperity.

This paper presents briefly the status of sick & closed industrial units in NWFP, their causes and remedial measures.

STATUS OF SICK / CLOSED INDUSTRIAL UNITS IN NWFP

According to Directorate of Industries Department, NWFP, total number of registered installed Industrial units in the province is 1848, out of which 1145 units are closed. The overall percentage of closed units in the province is thus 62%.

Table-1 shows status of medium and large-scale industries in the Industrial Estate administered by the Sarhad Development Authority NWFP. Total installed units are 646, out of which 415 units are closed, rendering 19896 workers jobless. The percentage of closed units in these Industrial Estates is thus 64% (Table-1).

Table-2 shows status of small-scale industries administered by Small Industrial Development Board. Total installed units in these Industrial Estates are 449, out of which 247 units are closed. The percentage of closed units is thus 55%, rendering 5292 workers jobless.

Total constructed units in the above Industrial Estates of the Province are 1095, while 753 units are scattered and are situated outside the Industrial Estates. Table-3, indicates the overall distribution of industries in each district, along with cost and employment-level. Total investment in this sector is Rs. 60805.45 million, employing 57,290 workers.

The worst-hit industrial sectors of the province are: industries based on imported raw materials, biscuits/confectionary, flour mills, engineering tobacco and textile mills. These industries were once considered profitable ventures and attracted a bulk of investment from other parts of the country in the past. Colony Sarhad Textile Mill, Janan Da Maloocho Mills, Premier sugar Mill, were previously known as well established industrial units. These units not only provided jobs to thousands of workers, but also played a pivotal role in Industrial Development of the Province. Tobacco industry in the NWFP is also at the verge of the collapse, because majority of the cigarette manufacturing units are closed, which has not only rendered thousands of employees jobless, but also added to the woes of tobacco growers, who are facing many difficulties in selling their crop.

* Director, PCSIR Labs. Complex, Jamrud Road, Peshawar. **Scientific Officer, PCSIR Labs. Complex, Jamrud Road, Peshawar.

Table - 1: Details of Medium/Large Scale Industries in the Industrial Estates of NWFP, Administrated by SDA

Name of Industrial Estate	Installed /units	Operational Units	Present employment	Closed units	Retrenched workers
Hayatabad Peshawar	212	132	17865	80	3564
Gadoon Amazai	228	30	650	198	15750
Hattar	192	58	8392	134	418
Nowshewra	14	11	479	3	164
Total	646	231	27,386	415	19,896
Percentage of closed industries in the Industrial Estates: 64%					

Fourteen industrial units were established in the Federally Administered Tribal Areas during Bhutto's era. These are also non-functioning and their ill-effects are clearly visible in the present scenario. The early revival of industrial units in FATA can improve the situation to a larger extent because opportunities of jobs will automatically check smuggling, narco-trade and other illegal activities in the tribal belt.

Apart from that, 50% of marble is being taken from the NWFP but primitive usage of blasting in the excavation process is causing more damage than the profit, and so there is urgent need to educate all those involved in the business to employ modern scientific techniques. Moreover, raw materials from the marble-sector goes out of the province because the industrial units for cutting the marble stone are located outside of the province and thus the major chunk of the profit from this sector also goes out of the province, thus depriving NWFP of the much required economic growth.

MAJOR CAUSES OF FAILURE / SICK UNITS IN NWFP

The following are the major causes of this sick / close and slow pace of industrialization in the province:

- a. Inconsistent policies of the Government.
- b. Locational Disadvantage, distance from the Seaport.
- c. Law and order situation.
- d. Non-availability of skilled labor.
- e. Lack of entrepreneurial skill.
- f. Dearth of local capital.
- g. Lack of proper infrastructure.
- h. Location of Head offices of DFI / Banks at Karachi.
- i. Smuggling of foreign goods.

- j. Abolishment of NOC for industrial units.
- k. Improper selection of the product. (50% success of the industries depend on the proper selection of products, proper evaluation of the market).
- l. Mushroom-growth of one type of industry members (e.g. flour mills).
- m. Industries based on imported raw materials.
- n. Industries based on less value-added products.
- o. Too many govt. agencies/dept. imposing different types of taxes, etc., have also discouraged the industrial growth.

There is a cost differential of about 23% for the industrial units established at Peshawar vis-à-vis those established in Karachi. To offset the above disadvantage and to minimize the cost-differential, the Federal Government in 1988 provided the following incentives for encouraging industrial investment in NWFP:

- i. Income Tax holiday for 8 years
- ii. Exemption from sales-tax for 5 years
- iii. Exemption from custom duty on imported machinery.

The following additional incentives were also provided by the Federal Government for Gadoon Industrial Estate, which was set up to eliminate poppy-cultivation in the area, by providing alternative job-opportunities to the locals:

- i. Duty-free import of raw materials
- ii. 50% concession in electricity tariff
- iii. Provision of loan at 3% mark up.

The above incentives stimulated the pace of Industrial Development in the province, resulting in establishment of 192 industrial units in Hatter Estate, with a total

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Table - 2: Details of Small-Scale Industries in Industrial Estates of NWFP administrated by SIDB

Name of the Industrial Estate	Total Constructed Units	Total Operational Unit	Total Closed Units	Total no.of Retrenched Workers
Kohat Industrial Estate Peshawar	124	71	53	1452
Small Industrial Estate Hayatabad	70	27	43	1000
Mardan Industrial Estate	87	39	48	800
Abottabad Industrial Estate	38	25	13	320
Manshera Industrial Estate	51	21	30	500
Kalabat Industrial Estate	11	1	10	300
Kohat Industrial Estate	7	2	5	120
D.I.Khan Industrial Estate	38	9	29	300
Bannu Industrial Estate	23	7	16	500
Total	449	202	247	5,292
Percentage of closed units is 55%				

Table - 3: District-Wise Total Number of Units, Investment and Employment in NWFP

S#	District	Total Nos of Units	Cost (Rs. In Million)	Employment
1.	Peshawar	375	3319.261	10391
2.	Nowshera	108	9423.076	6180
3.	Charsadda	40	676.169	640
4.	Kohat	35	2093.736	2839
5.	Karak	5	35.615	51
6.	Bannu	28	208.796	783
7.	Laki	21	4301.491	2103
8.	D.I.Khan	86	919.014	1909
9.	Tank	1	11.00	15
10.	Mardan	133	1004.076	4288
11.	Swabi	265	9649.181	3985
12.	Malakand	44	229.359	438
13.	Swat	267	792.808	2916
14.	Dir	37	393.613	624
15.	Bunir	73	128.869	789
16.	Chitral	10	10.625	91
17.	Haripur	229	27029.148	14249
18.	Abbottabad	52	339.182	513
19.	Mansehra	35	220.12	445
20.	Kohistan	1	4.00	10
21.	Battagram	3	16.311	31
	Total	1848	60,805.450	57,290

Table - 4: Sector-Wise Total Number of Industrial Units

S#	District	Total No. of Units	Remarks
1	Food, Beverages, Tobacco	567	Included Flour mill 208, Biscuits Conf. 63
2	Textile, Wearing Apparel Carpet, Leather and Footwear	265	Included Silk mill/Looms 158
3	Wood, Wood Products and Cork	85	Furniture 65
4	Paper, Paper Products, and Printing press	54	Included Packaging 44,
5	Chemical, Petroleum, Rubber, and Plastic Products	335	Plastic 140, Soap 43, Medicines 40,
6	Mineral Products	312	Marble etc. 285
7	Metal & Metal Products, Electric/Electric goods	207	Engineering 53
8.	Other Manufacturing Industries	23	
	Total	1848	

investment of Rs. 18.798 billion and employment-opportunities for about 17522 workers. Similarly, 228 units were established in Gadoon Amazai Industrial Estate, with a total investment of Rs. 9.123 billion and employment provided to about 16762 workers.

The process of industrialization in the province suffered a set back when the above incentives either stood expired, or were pre-maturely withdrawn by the Government during the period 1991-95. As a result, industrial units started closing down and, presently, 1145 units out of 1848 are lying closed.

Past experience shows that, as and when the incentive were provided by the Government, the pace of industrialization accelerated, of which Industrial Estate Gadoon and Industrial Estate Hattar are the examples. When the Government withdrew the incentives or these expired, the industrial units started closing down in the above industrial estates.

The other major factor responsible for bringing the sector to the present crippling situation is the locational disadvantage of the province. In order to offset the locational disadvantage and thereby to minimize cost differential of 23%, the Federal Government may grant some sort of incentives to restore the industrial activities and accelerate the pace of industrialization in the province.

Due to Afghan war, the NWFP particularly suffered greatly in terms of law and order and smuggling of foreign goods. This has badly shaken the Investors confidence and so they are reluctant to invest in the province. Besides this, the Federal Government has abolished the requirement of NOC for establishment of Industrial units, except for a few categories. Taking

advantage of the situation most of the investors set up Flour Mills in the Province, without keeping in view the supply and demand forces. Resultantly, due to lifting of ban on the movement of wheat and flour by the Federal Government almost all the Flour Mills have closed down. The closure of these industrial units in the province has given birth to many social vices, like phenomenal increase in smuggling, narco-trade and indulgence of jobless youth in illegal commercial ventures to earn their livelihood.

CONCLUSIONS

A comprehensive strategy and concerted efforts could improve the situation, in long run, and would pay dividends to the poor residents of the province, who are voyaging round the globe to earn livelihood for their families. The Federal Government should consider the provision of some sorts of incentives in the form of reduction in the price of electricity, permission for the export of goods from EPZ Risalpur, transportation subsidy (23%) and establishment of stock exchange, etc., for the development of industrial sector in this backward region.

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