

EXPLORING REASONS FOR FAILURE OF INDUSTRIALIZATION IN AZAD JAMMU AND KASHMIR

RAJA NAZAKAT ALI AND ATIQ-UR-REHMAN*

Abstract. The unemployment in Azad Jammu & Kashmir (AJ&K) is 10.7%, significantly higher than the rest of Pakistan. Largest section of population relies on agriculture, however, the potential of agriculture sector is limited due to certain natural restrictions, and thus this sector has not yielded sufficient that could provide enough job opportunities to unemployed youth. Among the other sources for development, the industries are considered as significant. However, contribution of industrial sector is also not much satisfactory. Since, 1960 good number of large, medium and small range of industrial units have been installed in Azad Kashmir, but rate of failure of industrial units is high. This is an alarming that increases unemployment and insecurity in the provision of livelihood for the entire family of furloughed employees. The present study aims to understand the reasons for the closure of industries and also examines the causes for marginal growth of the industrial units by getting the responses of those who have been engaged in industrialization. For this purpose, a survey of industries was conducted from industrial zones, and the opinions of the stakeholders were collected. The survey was complemented by several focus group discussions, personal interviews, and a seminar. The paper identifies and proposes solutions. The major recommendations of the paper are (a) formulation of a clear industrial

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policy and its display on government's website (b) maintaining a tax differential from other areas of Pakistan (c) establishment of dry-port in Azad Kashmir (d) establishment of dedicated hydroelectric projects for industries (e) provision of basic facilities in industrial areas (f) removal of bureaucratic hurdles and (g) provision of soft loans.

Keywords: AJ&K, industries, failure, reasons

I. INTRODUCTION

Azad Jammu & Kashmir or Pakistan Administered Kashmir and it lies between 73°-75° longitude and 33°-36° latitude. Azad Kashmir spreads over an area of 13,297km² and administratively divided into 3 divisions and 10 districts. (P&DD, 2019). According to the report of P&DD, the total population of AJ&K is 4, 319, 394 (P&DD 2022) and 82% of its population lives in a rural area (P&DD, 2021). The literacy rate of AJ&K was 74% in 2019 (P&DD, 2021), which is better than the average literacy rate of Pakistan. Despite good literacy rate, the unemployment rate in AJ&K is 10.7%, is significantly higher than other provinces of Pakistan. In the past the unemployment in AJ&K has been remained higher than the average unemployment in Pakistan. The recent Labor Force Survey of 2018-19 indicate further deterioration in the AJ&K. The data obtained through the Surveys indicates that the unemployment has increased from 6% in 2009 and 10.3% in 2017-18 to 10.7% in 2021 (Planning and Development, 2009, 2017 and 2021). The unemployment rate is higher for both men and women compared to national statistics indicating a need for creation of job opportunities. In AJ&K, the traditional sources of employment is agricultural and its allied sectors but it's mostly consist on hilly terrain and agriculture is facing several challenges in production. Thus, agriculture is not growing quality products that could not fetch a good price in the local market. Apart from agriculture, the other important sector is government job that could reduce the unemployment ratio, however, it is already over-employed. In this situation the next option is industrial development, which is viable option to accommodate and absorb the unemployed youth.

There is no doubt in the fact that industries play a vital role in economic activities, essential for employment creation, revenue generation, and economic growth and to raise the living standards of the

common man. In order to promote industrialization and boost the economy of AJ&K, the industrial department was established in 1952, but the progress has been very slow and actual industrial development in AJ&K started in 1985. Hereafter, a considerable number of industries have been established and also six industrial zones in different localities of AJ&K were established that were materialized with necessary infrastructure. Presently, in various districts of AJ&K, different types of small and large-scale industrial units are functional including, hydropower generation, readymade garments, furniture, flour mills, arms factories, poultry farms, textile mills/weaving, steel works, tire and rubber factory, main hotels, plastic industries, steel re-rolling furnaces, printing press, crush machines, RCC pipe industries, food and beverages, shoe industries, scooter/rickshaw (Vespa), cosmetics, PVC pipes and ice factories.

However, the rate of failure of industrial units in AJ&K is very high. According to department of industries, about 77 units became sick in 2006 and 80 units turned sick in 2009 and 83 in 2010. The continued decline of industrial units is a serious challenge for the government and Industries department of AJ&K. Hence, it is extremely important to explore the reasons behind the industrial failure and continue decline of industrial units. Even, the AJ&K has a significant potential for establishing mineral-based and agriculture based industries like gemstones industry, food & beverages, furniture, handicraft and paper industry, etc. The, areas of AJ&K contain the raw material for establishing many different types and categories of industries. However, the process of using these raw materials to make a productive output cannot be started. Since 2008, government has shown keen interest in industrialization and adapted the program “Green and Skilled Kashmir”, which aimed to transform the AJ&K into a model welfare state through the promotion of local industries and technical education. Despite adaptation of “green and skilled slogan”, the process of industrialization has been very slow. It is reflected through industrial employment that is only 13% of total labor forces. (P&DD, 2020). The industrial employment rate does not only indicate unemployment but also shows how the industries in AJ&K growing.

In fact, industrialization is a source of reduction in unemployment, which provides jobs not only to those who are working in the industrial units but also to those who are engaged in the transportation of goods and raw materials, production of raw materials and marketing of the produced goods. Moreover, the industrialization enhances the skills, productivity, and living standards of those who are involved in it. As stated above, the industrial sector in Azad Kashmir started developing in 1985 and it grew at a reasonable pace for two decades. However, in recent few years, many industries witnessed a decline and shutdown. According to AJ&K at a Glance, a periodical publication of Department of Planning and Development, Government of AJK, number of industries in 2018 reached a remarkable number of 2576, but in 2021, there were only 200 industrial units in AJK, as reported in the AJK at a Glance. The fast decline of industrial units give rise to unemployment and further deterioration of economic indicators in the State. To tackle the issue of industrial decline, it becomes extremely important to explore the reasons behind industrial failure and to design a comprehensive strategy for promotion of industrialization.

Objectives of Study

Failure of any industry is very painful for every responsible citizen because the failure of an industry not only increases unemployment, it also creates insecurity in the provision of livelihood for the entire family of furloughed employees. It is also increased unemployment reduces economic activity at the local level producing problems for the overall health of the local economy. In the recent past, a significant number of industries in all districts of Azad Kashmir faced closure and it is important to understand why the deindustrialization is happening. This study was conducted with following objectives:-

- To understand the reasons of closure industries and the reasons for the slow growth of the industrial sector of Azad Kashmir by getting the responses of those who have been engaged in industrialization.
- To propose solid measures for the revival of industries taking into account the concerns of industrialists and industrial workers.

Significance of Study

The study and in particular the recommendations provided in the study, are based on feedback provided by industrialists and industrial workers. To the best of our knowledge, this is the first large-scale academic effort to understand the problems faced by industrialists in AJ&K. The study also summarizes the potential and prospects of industrialization. The findings could be helpful not only in the revival of sick industries but also in the establishment of new industries in AJ&K.

II. LITERATURE REVIEW

In the ever-evolving landscape of modern economies, the success and failure of industries play a pivotal role in shaping global markets and societies. The industries serve as the backbone of economic growth, employment opportunities, and technological advancement, understanding the intricate factors that lead to their downfall becomes imperative. This literature review delves into the multifaceted and complex reasons behind the failure of industries, seeking to unravel the interplay of internal and external forces that contribute to their demise. By examining a wide array of scholarly works, case studies, and expert analyses, this review aims to shed light on the underlying patterns and lessons to be learned from the failures of various industries across different contexts. In doing so, we aspire to provide valuable insights that can inform strategic decision-making, policy formulation, and foster resilience within the business landscape.

The industrial failure is a widely studied phenomenon and the industrial decline can be categorized into following forms (a) decline of old industrial regions (b) premature deindustrialization in developing countries (c) problems faced by small firms. The literature on these is summarized as;

DECLINE OF OLD INDUSTRIAL REGIONS

The decline of many old industrial agglomerations in western countries was observed in 1970s, which were confronted with severe competition from low labor-cost countries like South Korea and Taiwan (Norton, 1979; Martin & Rowthorn, 1986; Rodwin & Sazanami, 1989; Hirst & Zeitlin, 1989; Chisholm, 1990). These old industrial regions had

frequently displayed long periods of economic growth, before they declined or even collapsed. Since 1980s, various approaches have made an attempt to know of why the old industrial regions might face economic decline. Some economist believe that industrial collapse should be considered a natural phenomenon that is same to the evolution of product life-cycle (Norton, 1979). Generally, the downfall of old industrial regions is conventionally associated with 'overcrowding' and 'congestion' or when the space is used by many economic actors at the same time. In general, when negative external effects tend to become larger than the positive external effects, or the marginal social costs become larger than the marginal social benefits (Richardson, 1973). Another reason identified by Krugman (1995) in a region where a stiff supply of production factors from other regions exists, the prices within that specific region will go high with an associated loss of competitiveness of firms. Old industrial regions may also decline due to institutional sclerosis or institutional 'lock-in': when laws and ideologies are so tightly constructed, and when the power of certain lobby groups are so embedded in decision-making, that entrepreneurial dynamism does not have a chance to nurture new growth (Boschma & Lambooy, 1999).

PROBLEMS FACED BY SMALL FIRMS

Small firms, especially in less developed countries, face comparatively more transactions costs and information asymmetry problems, do not relish economies of scale, are more vulnerable to economic shocks, and face many other problems. Sleuwaegen & Goedhuys (2002), working from the viewpoint of 'organizational ecology', suggests that selection of firms into an industry depends upon the level to which the organization is considered legitimate by its environment. Hannan et al. (1990) and Hannan and Carroll (1992) define legitimation as social acceptance of an organization. Sleuwaegen & Goedhuys (2002) argue that reputations and legitimation are a function of the original size of the firm and formal registration. This shows that large firms have better chances of social acceptance and registration than smaller firms. Consequently, larger firms enjoy privileges such as safe access to the legal system, to the formal banking sector, and publicly administered employee benefits. Moreover, social acceptance and registration profits larger firms to be in the good books of law-enforcing

agencies, consumers and suppliers etc., (Sleuwaegen & Goedhuys, 2002). Others believe that larger firms get special treatment by using their authority and influence (Gauthier & Gersovitz, 1997; and Rauch, 1991). In support of these arguments, Levensohn and Maloney (1997) said that the advantages of being formal rise with the scale of operations. The deficiency of credit, supervision and skilled labor, the lack of approach to industrial sites with appropriate infrastructure facilities, regulatory restrictions, the several kinds of taxes, price regimes, the lack of spare parts and material are regularly mentioned to be among the growth hampering factors (Sleuwaegen & Goedhuys 2002).

INDUSTRIALIZATION IN PAKISTAN

The topic of industrialization is much significant that linked with socioeconomic development of any country. To this it has been subject of interest therefore, discussed by several people at the national as well as on international levels. Some of experts have talked about the importance of industrialization for underdeveloped countries while others have mentioned its role in the economy of developed and developing countries. In the context of industrial development in Pakistan, it has been discussed by a very few economists. Some are in favor of modern technology for industrial development and some have suggested the promotion of small-scale industries and also some economists have focused towards the industrial problems of the country. While, talking on the sick industrial units of Khyber Pakhtunkhwa, Tariq & Shah pointed that the general causes for sick industrial units are the inconsistent policies of the Government, location disadvantage, law and order situation, non-availability of skilled labor, lack of entrepreneurial skill and others. Khan (2012) pointed out the same reasons for sickness of industrial unites such as lack of entrepreneurial skills, unskilled labor, and unavailability of raw materials, weak promotional activities and misuse of financial resources are the main causes found in Hayatabad Industrial Estate, Peshawar. Further, Kausar (2005) in her doctoral work pointed out the root causes of sickness of industries. She states that inconsistency in government policies is the main reason for sickness of industries. Azam, Sha & Khan (2009) has looked into the industrial development in KP in particular and in Pakistan in general. The findings of their study suggested that in order to speed up the economic progress

of the country, the industrial development in all the provinces should be encouraged by regularizing the supply of electricity, providing fiscal and credit incentives and by discontinuing the illegal inflow of foreign goods. Since far none of major research work has been done to explore and examine the reasons for industrial failure in Azad Kashmir. Therefore, this study aimed to explore the reasons for continue decline of industrial units in Azad Kashmir.

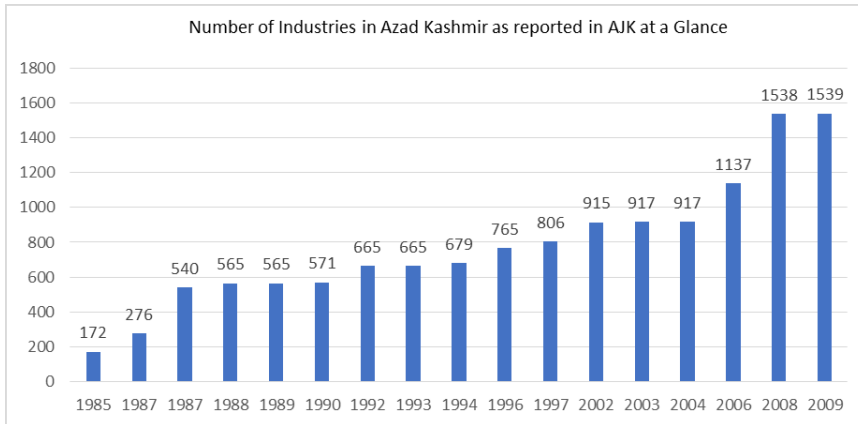
III. PROSPECTS OF INDUSTRIES IN AZAD KASHMIR

From the outset, the economy of Azad Kashmir was backward and the industrial setup was almost nonexistent at the time of independence. Due to the disputed status of the Jammu & Kashmir State, establishing industries in Azad Kashmir was a difficult process. Later, to promote industrialization and to boost the economy of Azad Kashmir, the industrial department was established in 1952, and till 1963, many steps were taken for the development of industries (Iqbal and Shamim, 1965). Initially, the focus remained only on the promotion of cottage and small industries, especially those industries for which skilled labor and raw material were locally available within AJ&K. However, till the 1980s, many industries were established in Azad Kashmir. A brief account of the history of industrialization is represented as under.

The data available indicates that industrialization in AJK started before 1985. The document "AJK at a Glance" version 1985 mentions a total of 172 industries in AJK of which 6 industries were established in the public sector and the remaining 166 in the private sector. On the other hand, the document "AJK Statistical Yearbook 1988" gives a summary of the data on industrial production for the years 1984 to 1988. This data set summarizes the production of 15 industrial units for the year 1984-85 and 30 industrial units for the year 1985-86. In 1984-85, the data summarized covers 3 cotton yarn industries, two cotton cloth industries, two woolen textile industries, and 8 ice factories. For the years 1985-86, there is also a mention of three hotels, five units of light engineering, and six other industries in miscellaneous categories. The textile production in the year 1984-85 was 4,132 tons of cotton yarn and 30,000 meters of cotton cloth. The woolen textile produced 340 metric tons of woolen products and the ice factories produced 42,410 ice blocks. The AJK Statistical Yearbook for the years 1990, 1994, 1996, and 1998 summarize only the data for

loan disbursed to various industries but don't mention the number of industries.

FIGURE 1
Number of Industries



Source: AJ&K at a Glance, Department of Planning and development Government of AJ&K

TABLE 1
Industries in Azad Kashmir 1984 To 1988 with their Production

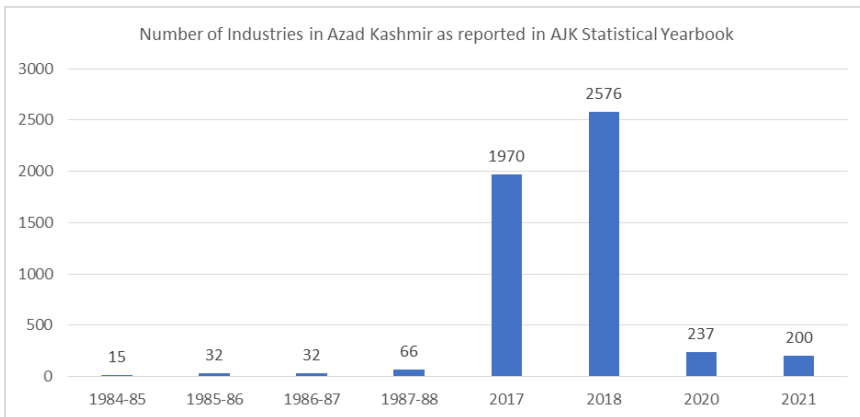
Industry	1984-85		1985-86		1986-87		1987-88	
	No.	Production	No.	Production	No.	Production	No.	Production
Cotton Yarn	3	4142 Metric Ton	3	194000 Kg	3	18235 Kg	4	9248000 Kg
Cotton Cloth	2	31000 mtrs			-		5	2560000 kg
Woolen yarn	2	340 Metric Ton	3	360000 Blankets 2250000 Kg yarn	3	360000 Blankets 2340000 Kg yarn	-	
Ice factory	8		10	34000 blocks	13	324000	13	400000
Hotel			3	Rs. 6000000 approx.	3	4200000	4	
Light Engineering			5	80000 Approx.	8			
Vegetable Ghee			-		-		2	1841000 kg
Miscellaneous			6	3500000 approx.	6	Rs 4000000	40	Rs 4342152

Source: AJ&K at a Glance, Department of Planning and development Government of AJ&K

The statistics given in ‘AJK Statistical Yearbook’ often differ from the data reported in the document ‘AJK at a Glance’. Probably the reason for this discrepancy is that sometimes crush machines, hotels, poultry farms, etc. are counted among the industries and sometimes these are not counted among the industries. There is a need to adopt a uniform definition of industries to be used by all the departments and all statistical documents so that the trend in industrialization could be analyzed more objectively.

FIGURE 2

Number of industries in Azad Kashmir as Reported in AJK Statistical Yearbooks



Source: AJK Statistical Yearbook, various editions, Government of Azad Kashmir

IV. INDUSTRIAL EMPLOYMENT IN AZAD KASHMIR

Employment in industries, as reported in the latest two versions of the AJK Statistical Yearbook is summarized in Table 2. The data indicates that employment in the industry was 4546 in 2017, which increased to about 5000 in 2018 and reduced to less than 4000 in 2019 and it stands at 4800 in 2020. But, this data counts the total number of industrial units to be 192 which means the poultry farms, crush machines, and hotels are not counted among the industries. This implies that it is not a true reflection of the employment in the industry. Before we count the employment in industry, it is necessary to have some specific definition

of industry, only then we can get a realistic number of those who have employment in industrial sector in the state.

TABLE 2
Industrial Employment in AJK

Industrial Estates	2017		2018		2019		2020	
	Units	Workers	Units	Workers	Units	Workers	Units	Workers
Muzaffarabad	48	158	47	158	47	141	19	137
Rawlakot	27	78	28	192	32	73	32	72
Kotli	20	182	20	182	27	221	29	229
D1 Mirpur	63	910	65	1170	84	445	66	1212
New Mirpur	42	3066	42	3064	41	2849	35	2895
Bhimber	10	152	10	152	6	140	11	263
Total	210	4546	212	4918	237	3869	192	4808

Source: AJK Statistical Yearbook of 2020 and 2021, Government of Azad Kashmir

V. METHODOLOGY

This research was planned to be based on a field survey, collecting the responses of industrialists and industrial workers in various industrial estates of Azad Kashmir. We intended to get a balanced sample of presently functional industries and the industries that are closed recently. A comprehensive questionnaire was designed to collect the responses and the questionnaire contained a large number of questions covering the factors like government policies, and the effect of microeconomic and macroeconomic variables, availability of raw materials and skills etc. The questionnaire was pretested in a pilot survey and was modified in light of feedback from the survey.

While conducting the survey, we faced several difficulties which prevented us from having a sample as planned. We were unable to get a good sample of respondents from industrial units that have been closed. Most of the closed industrial units were owned by the owners residing outside of the territory of Azad Kashmir including those currently outside of the country. Most of the industrial workers did not have any good understanding of the functionality of industrial units and could not reply to some technical questions about the failure of industries. They did not have any idea about the reasons behind the closure of their industries. Therefore, we ended up with the responses of executives of active

industries. The responses were collected in the form of personal interviews.

Through the questionnaire, we have collected the basic information and/or opinion about name and contact information, number of workers, the position of industries in comparison to the industries of the rest of Pakistan, the motivation behind opening industries in AJK, ownership structure, availability of raw material, the effect of the pandemic, availability of required skills, dealing attitude of different government departments like tax administration, environment, political problems, financial issues, business registration, energy shortage, technological obsolescence, consistency of policies law and order situation, the effects of Kashmir conflict and political status of the state, legal system, currency devaluation, availability of business loans, the interest rates and incentives from Azad Kashmir Government. Besides the survey, several focus group discussions were also held to collect the opinions of the stakeholders. These discussions included several officers of the Department of Commerce and Industries and executives of industries in various industrial estates. Before writing the report, the results were calculated in the form of descriptive statistics, and a draft of the recommendation was prepared and presented before industrialist in seminar.

Findings

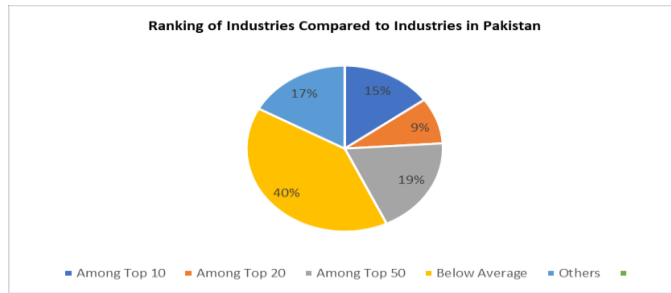
The details of the questions being asked and summary of the responses received are summarized in this section.

Scale of the Industry

One of the questions being asked was ‘how do you rank your industry among the industries of Pakistan? In response to this question, about 15% of the industrialists replied that they count themselves among the top 10 industries in Pakistan, 6% counted themselves among the top 20, another 19% feel themselves among the top 50% whereas the remaining 40% of the respondents count them in below average category in comparison to the industries of Pakistan. The output implies there is a reasonable number of industries that feel themselves comparable with the industries in Pakistan.

Figure 3

Ranking of Industry Compared to Industries of Pakistan



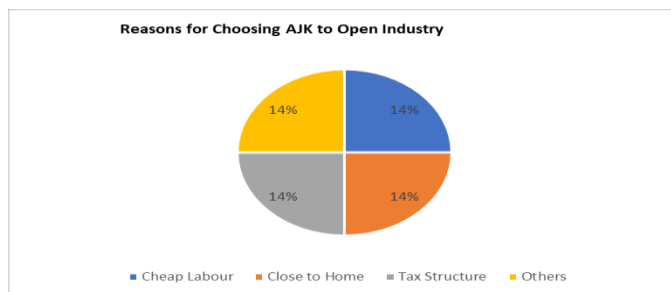
The output also implies that if the industries in AJ&K has been a reasonable scale compared to industries in Pakistan, the ‘economy of scale’ may not be a reason of failure of industries in Azad Kashmir.

Motivation for Opening Industry in AJ&K

The respondents were asked about their motivation to open the industries in AJ&K, in response to this question 36% of the respondents declared that they are motivated by the tax structure and 32% responded that the main motivation was proximity to home. Cheap labor attracted 6% of the respondents, whereas the remaining did not reply to the question. The output implies that the tax differential is very helpful in attracting the industrialists to establish industries, and if one wants to increase the number of industries in AJK, this factor must be kept in considerations.

Figure 4

Reason for Opening an Industry in Azad Kashmir

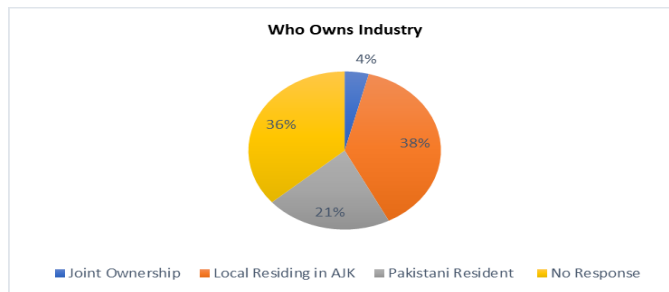


Ownership of Industries

Another question was being asked about the ownership of industry and investments. To this question, it was found that 38% of the industries are established by the locals of the area, while 21% of the industries are owned by someone from Pakistan, and 4% of the industries have joint ownership of the owner from Pakistan and Azad Kashmir. The remaining of respondents preferred not to reply to this question.

Figure 5

Ownership of the Industries

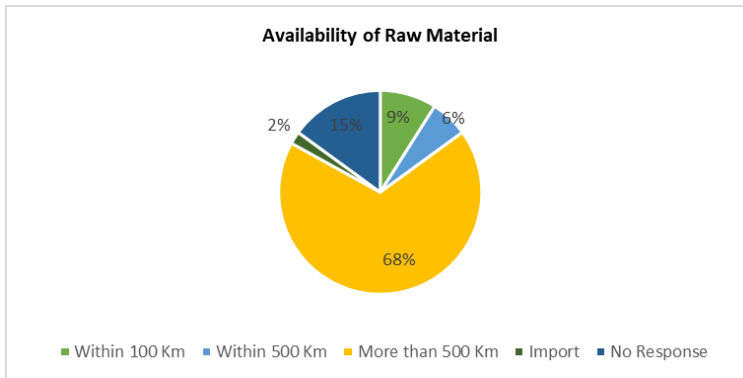


The output implies that a large number of industries were owned by locals. This means, there is reasonable aptitude of industrialization in the residents of Azad Kashmir and this can be enhanced by providing them with further opportunities. The respondents were asked if they have any other industry in Pakistan and response to this 44% responded that they have another industrial unit anywhere inside Pakistan.

Availability of Raw Material

In response to the question about the availability of raw materials, 68% of the respondents declared that the raw material is available at a distance of more than 500 kilometers. Many of the respondents are using imported raw materials for production and they have to purchase them from Lahore or Karachi and some of the respondents import directly from other countries. The response implies that so far, the industries being established in AJK are using raw materials imported from foreign or from other parts of Pakistan. The local potential has not been harnessed and there is a need to establish such industries which can utilize the locally available raw material including mineral and agricultural products.

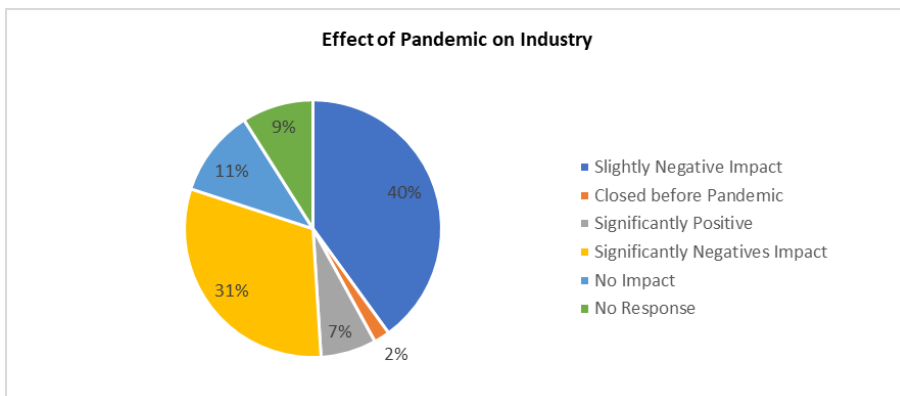
Figure 6
Availability of Raw Material



Effects of Pandemic

Responding to the question about the effect of a pandemic on the industry, 38% of the respondents said that they had only a slightly negative impact of the pandemic on their sales, 27% of respondents said that their business was seriously affected by the deadly pandemic and 10% of the industrialist said that they are not affected by the pandemic and remaining preferred not to respond.

Figure 7
Effects of Pandemic on Industries

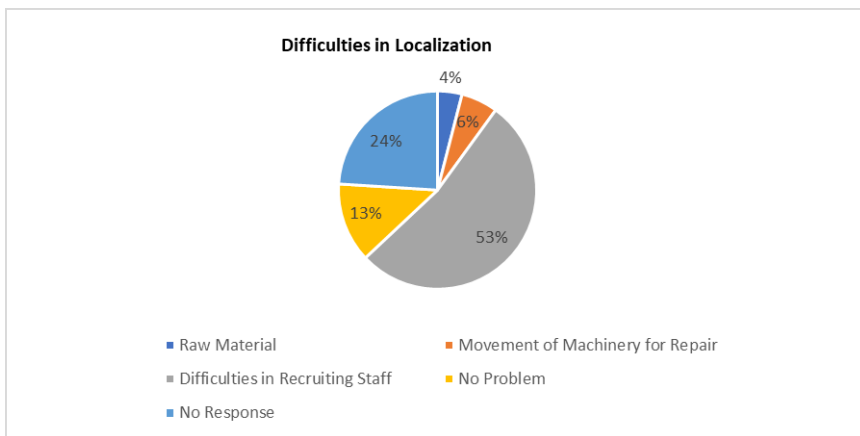


Difficulties in Localization of Industry

The respondents were inquired about the difficulty in the localization of industries. In response to this question, more than 50% of the respondents declared there they have difficulty finding the executive staff for the company. Some of the respondents declared that they have difficulty with the availability of skills and some of them declared that they have problems in repairing machinery in case of any malfunctioning. A few of the respondents declared that there is a problem with freight charges.

Figure 8

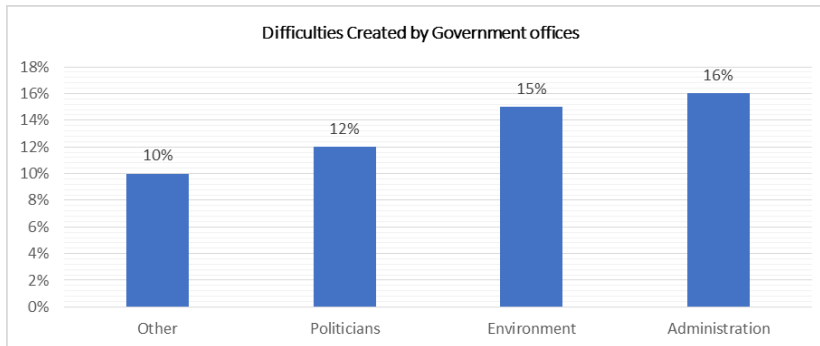
Difficulties in Localization of Industries



Difficulties/Hurdles from Government Offices

One question was asked from the respondent that whether they feel any hurdle from any of the following offices: administration, environment, politicians, and any other. In response to this question, a very small number of respondents declared to have a hurdle from any of these departments.

Figure 9
Difficulties from Government offices



It is indeed encouraging to see that most of the industrialists do not face any difficulty from any of the government departments.

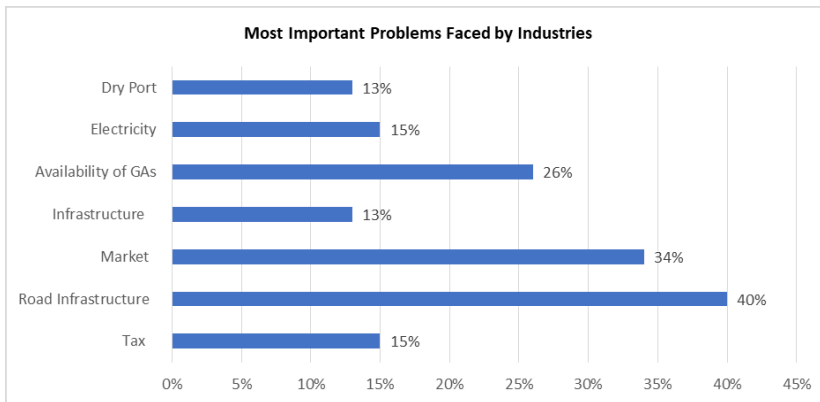
Major Problems Faced by Industries

In one question respondents were asked to mention three major problems they are facing. In response to this question, 40% of the respondents complained about the road network. The roads inside industrial estates are not good quality roads and they often produce problems in the movement of the vehicles transporting goods for the industries. About 34% of the respondents mentioned market limitations as one of the major problems. The goods that have been produced in the industries of Azad Kashmir are transported back to Pakistan, and this dual transportation makes the goods uncompetitive in the market. 25% of the respondents complained about the availability of natural gas. Despite having a gas supply line in Mirpur City, gas is not provided to the industries.

About 17% of the respondents complained about the prices and smooth availability of electricity. Some industrial units face problems when there is load shedding without prior notice. It takes significant time to restart their machine and the raw material in the machine becomes redundant if the electricity turns off without having prior preparation for it. Twelve percent of respondents complained about problems related to the dry port and another 12 percent complained about infrastructure-related issues. The other problems that were mentioned by the

industrialists include transportation costs, availability of raw materials, availability of skills, and lack of competitiveness, financial issues, and managerial issues.

Figure 10
Major Problems Faced by Industries



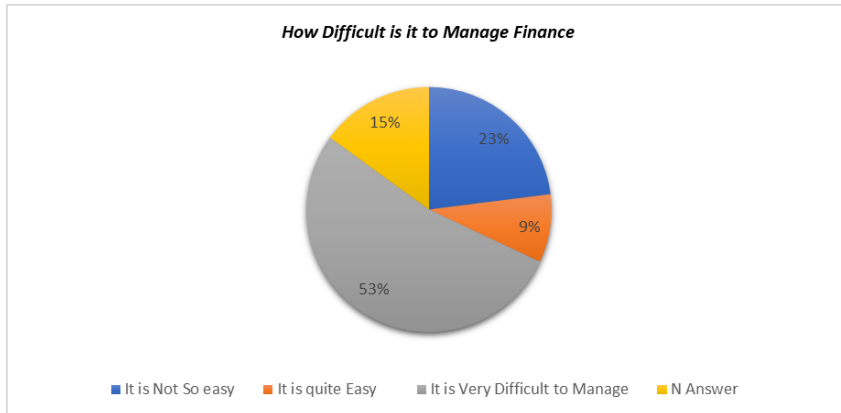
Availability of Running Finance and Company Registration

A couple of questions were related to the availability of finances and registration of business in Azad Kashmir. In response to the question related to finances, 53% of the respondents said that it is very difficult to manage the finances for the industries in Azad Kashmir and another 23% said that it's not so easy to manage the finances. About 9% of the respondents have sufficient liquidity for their daily needs and do not feel difficulty in managing the financial needs.

In response to the question related to difficulties in the registration of companies, 53% of the respondents said that it is quite easy to register a business in Pakistan and another 9% said that it is not more difficult in AJK to register a business than from the rest of Pakistan. In another question, the respondents were asked to mention the three most important incentives they need to expand their business in Azad Kashmir. In response to this question, 32% of the respondents demanded relaxation in taxation for the continuity and expansion of their business. The respondents demanded the provision of electricity were 30% and another 30% demanded cheap electricity as one of their top three demands.

About 28% demanded a better road network and 15% asked for a dry port in Mirpur to have a better business environment.

Figure 11
Difficulties in Management of Financial Resource



Exchange Rate and Policy Rate

Lastly, we asked questions about the effect of two important variables i.e. exchange rate and policy rate. It is usually assumed that the business community, especially those who are involved in external trade gets the advantage when there is a reduction in the value of a domestic currency compared to the dollar. We ask respondents how much advantage their businesses get if there is a reduction in the value of the local currency. In response to this question, all of the respondents said that devaluation is extremely harmful to their businesses. The industries in Mirpur and other cities of Azad Kashmir are producing goods for local needs, and most of the industries use imported raw materials for production. If there is a devaluation of the rupee, it makes the raw material expensive, which increases the cost of production. Therefore, all of the industrialists are hurt by devaluation. This is true for other industries in the country which are producing goods for domestic needs.

A few industrialists replied that sometimes it also happens that because of the unnecessary rise in the cost of production, the production becomes so expensive and the local industries cannot compete in the market and have to close their business. Once a domestic industry is

shutdown, the consumer switches to cheaper Chinese goods, increasing the burden of external trade. This position can be turned down only if the economy achieves the level of economy of scale, which is not happening in the case of Pakistan. This is why despite a significant reduction in the value of the rupee, there is no improvement in the balance of trade during the last five years. Finally, we asked the respondents about the policy rate. All of the respondents favored a low and sustainable policy rate. Higher policy rate restricts industries to get finances for expansion and other liquidity requirements. Therefore, the industrialist unanimously favored low and sustainable policy rate.

VI. RECOMMENDATIONS FOR OVERCOMING THE PROBLEMS

Finally, we discuss the possible solutions for the problems faced by industrialists. Some of these proposals were proposed by the industrialist during the focus group discussions and some of the proposals were proposed by the project team. Finally, in a consultative seminar held at Mirpur Chamber of Commerce and Industries, these proposals were discussed with a large number of industrialists and their feedback was obtained and incorporated. Therefore, these proposals present the point of view of the industrialists about the revival of industries. The proposals are briefly outlined:

Recognition of Industry

The industry producing goods for domestic needs is as important as an export-oriented industry. Every product produced for domestic use actually substitutes the imported goods. Therefore, the industry producing goods for domestic needs should also be given incentives like the export-oriented industries. Industries provide jobs to the people and revenue to the government. Efforts must be made to revive the sick and non-functional industrial units.

Industrial Policy and Opportunities

No policy for industrialists is available on the website of any government department. In this era of digital information, the first step in investment is to explore the internet and find the opportunity. It is

recommended that a very clear industrial policy may be formulated and it should be made available via the website of all relevant departments. The investment opportunities shall also be listed and shall be made available.

Tax Structure

In AJK, every new industry is given a tax holiday for the first five years. After the expiry of the holiday period, normal taxes as applicable to an investment in Pakistan are applied to the industries in Azad Kashmir. The tax holiday is one of the most important incentives for investors to establish industry in Azad Kashmir. Many industrialists have closed their businesses on the expiry of the tax holiday. Industrialists argue that due to location disadvantages, the tax rebate balances the cost of production. The taxes as usual push up the cost of production and make the industry non-competitive.

To resolve this issue, it is proposed that after the expiry of the tax holiday, a tax differential must be maintained to cover the location disadvantage faced by the industries. Taxes should be raised gradually and the final slab of taxes must not be higher than half of the tax rate applied in the rest of Pakistan so that the cost of location disadvantage can be balanced. For example, after 3 years of establishing an industry, a tax rate of 2% may be applied which can be increased to 4% after 5 years and can be increased further after 7 years. And the final tax slab should be maintained at 50% of the tax applicable to Pakistani industries. Having a very small industrial sector in Azad Kashmir, the burden of providing jobs falls on the shoulders of the government. Assume a situation when there is no taxation on the industry, even then industries share the burden of government in the form of producing jobs. Therefore, incentive to cover the location disadvantage must be given so that the industry can maintain its competitiveness over the counterparts in other parts of the country.

Dry Port

Industrialists using imported raw materials face extreme difficulty when they import raw material. They need a dry port in the city, so that, the clearance can be made easily. The proposal for establishing a dry port is already under consideration by the government

of Azad Jammu and Kashmir. It is proposed that a system for clearance of customs and other requirements of imports must be initiated immediately in the building of AKLASC in Mirpur which has been allocated for the purpose. The building is already constructed, therefore, it will need only the deputation of relevant staff and equipment.

Availability of Electricity

Industrialists are facing two kinds of difficulties related to electricity, first high cost of electricity and second interruption in the supply of electricity. Although the energy costs are high in entire Pakistan, added to location disadvantage and power interruption, this makes the establishment of an industry troublesome for the investor. If cheaper electricity can be made available for the industrialists, it will provide a huge incentive for the establishment of industry in AJK. Fortunately, Azad Kashmir is having large resources of environment-friendly and cheap hydroelectricity. It is proposed that industrialists should be allowed to establish a hydroelectric project of medium size whose output should be supplied only to the industries at no profit no loss basis. If no single industrialist is in a position to establish such a unit, a consortium of industrialists can do this. Such an action will also reduce the incidence of pollution and will provide the cheapest electricity for the industries. This will benefit not only the industrialists but by providing the opportunity for import substitution, it will help the nation in overcoming the current account deficit. There will be no financial liability on part of the government by the establishment of such hydroelectric units. Instead, the government can earn a normal rate of tax from the project. This initiative will help in reducing the unemployment from the state which is the need of time.

Provision of Basic Facilities for Industrial Estates

As evident from chapter number six, a large number of industries complained about the lack of facilities in the industrial states including poor condition of the road networks and the absence of natural gas. Better facilities help in better output which transforms into better employment and growth. To provide better facilities in the industrial estates, it is proposed that a certain proportion of the taxes collected from industrial estates may be allocated to a representative body of industrialists who can

use these funds for the development of infrastructure in the estate. In this way, the industrialist will feel empowered and the sense of ownership will motivate them to do more for the betterment of industrialization.

Bureaucratic Hurdles

Starting an industry needs engagement with several public offices for basic facilities like electricity, gas, company registration, taxation customs, etc. It takes a lot of time to manage all these facilities. Therefore, it is recommended that a facilitation center should be established inside industrial estates having the offices of all relevant departments in it, so that the time consumed in bureaucratic procedures for industries could be minimized.

Industrial Mapping

Many industrialists complained about the availability of raw material and marketability problems for their industries. In order to overcome these problems, there is a need for industrial mapping of the AJK. A team of experts should survey all the districts of AJK to identify the locations with respect to their feasibility for the availability of raw material and marketing of goods. In the areas where there is no availability of raw materials, the industries producing goods for local consumption can be recommended. In the areas where some kind of raw material is produced, the industries using these raw materials can be established. The areas where there is no raw material at present but the land can be utilized for producing raw material should also be identified so that the production of raw material for the industries can be initiated. This initiative will reduce the cost of location disadvantage and will turn it into location advantage.

Soft Loans for Industries

As discussed, the loans were provided to establish industries in Azad Kashmir in the 1990s. This loan provision helped to increase the number of industries rapidly. But in recent years, the loan for industries decreased drastically and the interest rates increased to record highs, making it very difficult to acquire loans for a new industry. Only those who already have an industry or those having some source of remittances can start a new industry. Unfortunately, the government of Azad Jammu and Kashmir

has very little influence on the choice of bank interest rate. However, to promote employment, it can be requested from the State Bank of Pakistan to allocate some amount for the startups and sick industries. SBP can be requested to provide such amount on a no markup or concessional markup basis. Loans can be disbursed through BAJK for the needy and skilled young entrepreneurs to start a new business.

The branches of commercial banks in Azad Kashmir have deposits worth \$475 billion and the disbursement of the loan in Azad Kashmir is only 13 billion of which most of the loan is consumer loan. The bank branches should be urged to distribute some fixed percentage of their deposits in Azad Kashmir and the State Bank should be pursued to issue the guidelines in this regard. If the banks start disbursing a few percent of the deposits in Azad Kashmir, a huge amount would become available for business loans which can enhance the business environment in the state.

Exchange Rate

The industries focusing on production for local needs face extreme problems due to depreciation. The depreciation increases the cost of production making the industries non-competitive. Foreign goods can easily outperform these local industries and it causes more inflow of imports instead of reducing it. The government often chooses to allow the depreciation so that the balance of trade is improved but this strategy is counterproductive because 90% of the industry in Pakistan produces for local needs and all these units face difficulty when there is a depreciation. It is out of the scope of the Government of AJK to influence the changes in the exchange rate, however, this is discussed to bring into the record and to forward the recommendations to the federal government. According to the industrialists, rupee depreciation never helps those who are producing goods for local needs and these industries suffer due to depreciation. Therefore, depreciation should not be opted as a policy for improving trade.

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