Large-Scale Manufacturing (LSM) Sector in Pakistan

By ICMA Research and Publications Department

The manufacturing sector in Pakistan is broadly categorized into Large-Scale Manufacturing (LSM) and Small-Scale Manufacturing (SSM). LSM comprises industrial units registered under the Factories Act, 1934, or those employing 10 or more workers, and includes both production and service-related activities. SSM refers to smaller, often informal units operating outside this formal framework, typically with limited scale, capital, and regulatory oversight.

In March 2025, Pakistan's manufacturing sector showed modest improvement, as reflected by a 1.79% year-on-year increase in the Quantum Index of Large-Scale Manufacturing (QIM). However, the sector continues to face structural volatility. In 2023, LSM output contracted by 10.92%, following uneven growth in previous years. This persistent fluctuation highlights underlying challenges such as energy shortages, high input costs, weak demand, and policy unpredictability, all of which constrain the sector's long-term stability and competitiveness.

A Historical Overview of Pakistan's Industrial Evolution

Period	Phase Title	Key Highlights
1947–1950	**Post-Independence Setup**	Inherited only 34 of 921 industrial units; no formal industrial policy; small-scale manufacturing centered in Karachi and Lahore; Industrial Finance Corporation created (1948); industry contributed 6.9% to GDP.
1951–1960	**Planned Growth & Import Substitution**	First Five-Year Plan adopted; state-led development; textiles and sugar drove 80% of industrial growth; 16% of private credit to manufacturing; SME support through tariffs and incentives.
1961–1970	**Industrial Expansion Phase**	Industrial output rose 7–8% annually; led by textiles, sugar, cement, and fertilizer; Punjab contributed nearly 50% of national manufacturing.
1972	**Nationalization Drive**	Bhutto government nationalized 31 major firms under NERO; sectors included steel, chemicals, engineering, and utilities; strong shift to state-led control.
1978–1988	**Start of Liberalization**	Nationalization reversed under Zia; private sector re-entered fertilizers and autos; public investment continued in heavy industries; Pakistan Steel Mills launched in 1981 with Soviet assistance.
1985–1988	**Private Sector Revival**	Industrial policy promoted private investment in textiles, cement, and consumer goods; manufacturing grew 4–5% annually; early privatization improved confidence.
1989–1999	**Privatization & Deregulation**	Aggressive reforms under Benazir and Nawaz; cement fully privatized by 1992; partial privatization of Pakistan Steel; banking, telecom, sugar, and auto sectors liberalized for local and foreign investors.
2014–2017	**Recovery with Regional Gaps**	LSM growth at 4–5%; driven by rising textile exports and cement demand; LSM made up 70% of total manufacturing; KP and Balochistan's share remained under 10%.
2018–2020	**CPEC Gains, Growth Strain**	CPEC pushed SEZ development; industrial momentum slowed due to political uncertainty, trade frictions, and COVID-19; LSM contracted.
2021–2022	**Post-COVID Rebound & Cost Surge**	LSM rebounded sharply on base effects and global demand; led by textiles, pharma, and cement; rising inflation and energy costs eroded competitiveness.
2023–2025	**Cost-Driven Contraction**	LSM output dropped 10.92% in 2023 due to weak demand, export slump, and high energy costs; March 2025 QIM rose 1.79%, but growth remained volatile and uneven.

Key Global Rankings and Indexes Tracking Pakistan's LSM Competitiveness

1) **HBL Pakistan Manufacturing PMI –** June 2025 - Pakistan's manufacturing sector continued to expand in June 2025, with the PMI recorded at 50.5—the lowest in 10 months and just above the neutral mark of 50. This decline from 51.1 in May and 52.7 in April reflects a slowdown in output, new orders, employment, and input purchases. While the sector remains in expansion territory, growth momentum has weakened. Supplier delivery times also worsened due to ongoing global shipping and logistics challenges.
2) **UNIDO Competitive Industrial Performance (CIP) Index -** According to the latest available data, Pakistan ranked 80th out of 153 countries in the 2021 UNIDO CIP Index—a measure of global industrial competitiveness. As of March 2025, Pakistan's Total Manufacturing Index reached 115.39, posting a 0.35% month-on-month increase. However, it remained 1.17% lower compared to March 2024, indicating limited improvement in long-term industrial performance.
3) **PBS Quantum Index of Large-Scale Manufacturing (QIM)- April 2025 -** The QIM, which tracks changes in industrial production volumes, rose to 108.37 in April 2025, up 2.29% year-on-year from April 2024. However, the index declined by 3.2% compared to March 2025. Over the first ten months of FY24–25 (July–April), large-scale manufacturing output contracted by 1.52%, highlighting persistent cost pressures and weak domestic demand.

Current Overview of Industrial Sector (FY2024–25)

Pakistan's industrial sector remained under pressure during FY2024–25, reflecting a mix of modest growth in manufacturing and sharp contractions in key sub-sectors. In FY2023–24, the sector grew by 1.21%, largely supported by manufacturing (2.42%) and construction (5.86%), though LSM slightly declined by –0.03%.

LSM Trends - During July–March FY2025, LSM output contracted by 1.47% YoY. In March 2025, LSM showed 1.79% YoY growth, but fell 4.6% MoM, reflecting continued volatility. Growth was observed in several LSM subsectors:

- *Automobiles: +42.2% (notably +202% LCVs, +99% trucks, +37.5% cars)*
- *Textiles: +2.99%*
- *Coke & Petroleum: +5.01%*
- *Pharmaceuticals: +2.81%*

Cement Sector - Cement dispatches reached 37.3 million tons (Jul–Apr FY2025), marginally down by 0.3%. Domestic sales fell by 5.6% while exports of cement rose by 24% to 7.13 million tons.

Construction & Mining Sectors - Construction activity declined by 9.3% in H1-FY2025 whereas Mining and quarrying contracted by 5.7% in Q2-FY2025.

Industrial Contribution to GDP

- *Manufacturing added +1.0 percentage point*
- *Construction subtracted –1.3 percentage points*
- *Mining & Quarrying contributed –0.5 percentage points*
- *Net industrial contribution (H1-FY2025) stood at –0.4 percentage points*

Future Outlook of LSM Sector

Pakistan's Large-Scale Manufacturing (LSM) remained sluggish in FY2025, lagging behind regional peers.

- India recorded 3.4% manufacturing growth, contributing 15–17% to GDP.
- Bangladesh's manufacturing share reached 22.7%, fueled by double-digit growth in garment exports.
- In contrast, Pakistan's textile exports stagnated, reflecting declining competitiveness.

High-tech manufacturing contributed only 1.43% of exports, placing Pakistan 91st in the Global Innovation Index 2024. Despite its "innovation overperformer" tag, industrial innovation remains weak.

The State Bank projected 2.5–3.5% GDP growth for FY2025, led by agriculture. However, LSM contraction, energy shortages, price volatility, and low investment continue to weigh down industrial recovery. A rebound depends on macroeconomic stability, easier credit, and stronger external demand.

Way Forward – Key Priorities

- **Raise R&D Spending** from 0.25% of GDP, aligning with models like South Korea (4.9%).
- **Strengthen applied research** and university–industry ties, as in Finland.
- **Expand technical training** using Germany's dual-education model to boost workforce productivity.
- **Adopt Industry 4.0 technologies**—automation, AI, IoT—for smarter manufacturing.
- **Ensure reliable energy and digital infrastructure,** following Vietnam's export-driven strategy.
- **Implement the National Industrial Policy 2023** with a focus on industrial clusters and eco-zones, as in China.
- **Diversify exports** into electronics and technical textiles, inspired by Malaysia's model.
- **Revive long-term industrial financing,** drawing on India's SIDBI experience.
- **Stabilize currency,** simplify regulations, and improve export procedures like Bangladesh and Kenya.

Strategic SWOT Overview of LSM Sector

The following provides a brief overview of the sector using the SWOT framework and does not represent a detailed analysis.

STRENGTHS

- Strong base in textiles, cement, pharma, and automotive
- Contributes around 70% of total manufacturing output
- Supported by CPEC infrastructure and energy projects
- Early signs of recovery in PMI and business sentiment
- Historical resilience after economic shocks

WEAKNESSES

- Output declined for three straight years (–1.9% in Jul–Feb FY25)
- Low R&D spending (0.16% of GDP) limits innovation
- High-tech exports only 1.4% of total manufactured exports
- High energy costs and policy instability
- Underutilized capacity and weak export diversification

S W SWOT O T

OPPORTUNITIES

- Growth potential in electronics, renewables, and agro-processing
- Adoption of Industry 4.0 (automation, AI, IoT)
- Manufacturing relocation opportunity due to China+1 trend
- Vocational training and public-private partnerships to train workforce
- SEZs under CPEC can attract FDI and scale production

THREATS

- Energy shortages, global price volatility, and fiscal pressures
- Inconsistent tax policies raising input costs
- Losing competitiveness to regional peers
- High borrowing costs and limited industrial credit
- Currency volatility increasing cost of imported inputs