

## THE ROLE OF CEMENT INDUSTRY IN THE ECONOMIC DEVELOPMENT OF PAKISTAN

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### ABSTRACT

The contribution of cement industry in the economic development can be measured by the value addition of the cement industry to Gross Domestic Product of the country, creation of employment opportunities, receipts from exports, tax payments, and the entire revenue generated by the cement industry. The cement industry of Pakistan is one of the major industries of Pakistan which have an enormous impact on the economic development of the country. The contribution of cement industry is very effective not for only the manufacturing sector but also for the entire economic development of Pakistan. The cement industry of Pakistan was once a very small industry but it rapidly grew with the passage of time and finally it entered in the export market. The cement industry contributes in the Gross Domestic Product (GDP), it creates employment opportunities for thousands of people and it creates huge revenue for the government in the form of taxes. It directly and indirectly contributes in the economic development of Pakistan. It also makes contribution in the development of its allies industries especially the transportation sector is largely benefitted by it. The cement industry of Pakistan attracted not only domestic investors but also foreign investors.

**KEY WORDS:** ECONOMIC DEVELOPMENT, PRODUCTION, CEMENT

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## INTRODUCTION

The history of cement industry of Pakistan goes back to 1947 when Pakistan got only four cement plants after independence. The cement industry of Pakistan had less than half a million tonnes per year production capacity. The industry had observed many developments with the passage of time but the production of cement in the country was not sufficient. There was a gap between the demand of cement and the supply of cement. To meet the demand of cement in the country, cement was imported from different countries. But privatization and effective price decontrol system in the period of 1991-92 heralded a new age in the cement industry. The cement industry of Pakistan had reached a level where surplus production was achieved after meeting local demand in 1997. Due to this huge development in the industry, many investors were attracted. Other reasons for attraction of the investors were cheap and abundant availability of raw materials in the country. Increasing local demand for cement consumption also encouraged the producers for further expansion in production capacity of their manufacturing units. Currently the cement sector is utilizing approximately 74 per cent of its installed production capacity of 45 million tones approximately since the local consumption of cement is dull for the last several years. The total production of cement during 2013 was 33mln tonnes. The domestic sale of cement remained 25 mln tonnes during the year 2013. The low domestic demand caused the cement industry to be unable to utilize the total installed capacity. A main reason for this situation is due to curtailed PSDP (Public sector development project) funds because the major demand drive of cement industry in Pakistan is PSDP funds announced by the government in its annual budget. But unfortunately these funds are underutilized since for the last couple of years. There is a need to discover more foreign markets for cement industry in order to utilize full production capacity. Cement manufactured in Pakistan is being exported to Afghanistan and Central Asian States below cost. The industry is quite optimistic that exports to

Afghanistan and Central Asian countries will be increased further because these countries are landlocked and Pakistan is the only country which can export cement to these countries at competitive rates. Pakistan exported cement of 8 mln tonnes during the year 2013.

### A HISTORICAL REVIEW OF CEMENT INDUSTRY

The total capacity of cement production in Pakistan with Local Dispatches is given as under. The increase in Production capacity and Local dispatches is shown in the table.

Period	Production Capacity (Million Tonnes)	Increase %	Local Dispatches (Million Tonnes)	Increase %
1990-1991	8.89	0.00%	7.29	0.00%
1991-1992	8.89	0.00%	7.71	5.79%
1992-1993	8.89	0.00%	8.32	7.94%
1993-1994	9.048	1.77%	8.136	-2.26%
1994-1995	10.173	12.43%	8.380	3.00%
1995-1996	10.173	0.00%	9.431	12.54%
1996-1997	12.504	22.91%	9.650	2.33%
1997-1998	15.528	24.18%	9.193	-4.73%
1998-1999	16.410	5.68%	9.621	4.65%
1999-2000	16.379	-0.19%	9.937	3.29%
2000-2001	15.534	-5.16%	9.933	-0.04%
2001-2002	16.101	3.65%	9.833	-1.01%
2002-2003	16.321	1.37%	10.980	11.66%
2003-2004	17.279	5.87%	12.545	14.25%
2004-2005	17.909	3.65%	14.788	17.88%
2005-2006	20.83	16.31%	17.049	15.29%
2006-2007	30.50	46.41%	21.034	23.38%
2007-2008	37.68	23.54%	22.577	7.33%
2008-2009	42.28	12.22%	20.325	-9.97%

2009-2010	45.34	7.24%	23.567	15.95%
2010-2011	42.37	-6.55%	22.002	-6.64%
2011-2012	44.64	5.35%	23.947	8.84%
2012-2013	44.64	0.00%	25.06	4.64%

### HISTORICAL REVIEW OF EXPORTS WITH OTHER FIGURES

The exports, total dispatches, total utilized capacity, surplus capacity and increase trend of cement is shown in the table as follows.

Period	Exports	Increase %	Total Dispatches	Increase %	Capacity Utilization	Surplus Capacity
	(Million Tonnes)		(Million Tonnes)	(Total)	%	(Million. Tonnes)
1990-1991	-	0.00%	7.290	0.00%	81.99%	1.601
1991-1992	-	0.00%	7.712	5.79%	86.74%	1.179
1992-1993	-	0.00%	8.324	7.94%	93.62%	0.567
1993-1994	-	0.00%	8.136	-2.26%	89.92%	0.912
1994-1995	-	0.00%	8.380	3.00%	82.37%	1.793
1995-1996	-	0.00%	9.431	12.54%	92.70%	0.743
1996-1997	-	0.00%	9.650	2.33%	77.17%	2.855
1997-1998	-	0.00%	9.193	-4.73%	59.20%	6.335
1998-1999	-	0.00%	9.621	4.65%	58.63%	6.790
1999-2000	-	0.00%	9.937	3.29%	60.67%	6.442
2000-2001	-	0.00%	9.933	-0.04%	63.95%	5.600
2001-2002	0.107	100.00%	9.940	0.06%	61.73%	6.161
2002-2003	0.472	342.53%	11.452	15.21%	70.16%	4.869
2003-2004	1.118	137.02%	13.663	19.31%	79.08%	3.615
2004-2005	1.565	39.96%	16.353	19.69%	91.32%	1.555
2005-2006	1.505	-3.83%	18.554	13.46%	89.08%	2.28

2007-2008	3.228	114.46%	24.262	30.77%	79.23%	6.23
2008-2009	7.717	139.06%	30.293	24.86%	80.14%	7.38
2009-2010	10.981	42.31%	31.306	3.34%	74.05%	10.97
2010-2011	10.649	-3.03%	34.216	9.29%	75.46%	11.13
2011-2012	9.428	-11.47%	31.430	-8.14%	74.17%	10.94
2012-2013	8.568	-9.12%	32.515	3.45%	72.83%	12.13

### CREATION OF EMPLOYMENT

The cement industry of Pakistan plays a significant role in the economic development of Pakistan. It constitutes 3 percent of the overall manpower of the country. Different skilled and unskilled people are the part of cement industry of Pakistan. Labors, technical people, engineers and other professional people render their services in this industry. The industry needs a favorable working location so majority of the cement firms in Pakistan are situated in the very far areas of the northern part of the country. So these areas are usually not populated. All basic facilities such as residence, health, education are provided by the cement industry of Pakistan for its employees. Cement industry of Pakistan makes its contribution in employing people directly and indirectly. The connected industries of cement industry such as transportation and retailing are also benefitted by this industry.

### TAX REVENUE

The cement industry of Pakistan generates significant revenue of Rs. 30 billion. The investment made in the industry during last four years is significant. In this regard a considerable amount of more than Rs.4 billion is invested for the development of this industry. The cement industry of Pakistan is on the way of expansion. So there will be a significant rise in the tax revenue of

cement industry of Pakistan. The investment made by the foreign companies in the cement industry of Pakistan will also result in generation of considerable revenue for the country.

### SHARE OF CEMENT INDUSTRY IN EXPORTS

It has a nominal share in total exports of the country. Northern region of cement industry is contributing for more than 70% of cement sector while the rest of the share comes from the southern region.

### TOTAL EXPORTS AND CEMENT EXPORTS OF PAKISTAN

The total exports of Pakistan along with the exports of cement are given as under.

	2009	2010	2011	2012	2013
Total Exports (USD mln)	17,688	19,290	25,355	24,696	24,754
Cement Exports	606	511	496	503	531
Share of Cement in Total Exports	3.4%	2.6%	2.0%	2.0%	2.1%

### CEMENT INDUSTRY FACTS AND FIGURES

The total number of companies currently operating in cement sector is 18 out of which 17 are listed with stock exchange. The total share of listed companies based on its production capacity is 94%. Cement industry of Pakistan has a total production capacity of 33 million Tons. Total capacity utilization is 74.6%. Market capitalization of the industry is 248 billion. The revenue generated from the industry is 193 billion while net income is 54 billion. Cement sector total estimated loans are 54 billion while share in banking loans is 1.3 %. Cement Non Performing Loans are estimated to 16 billion approximately.

## STRENGTHS OF CEMENT INDUSTRY

The major strengths of the cement industry of Pakistan are discussed as under.

### 1. Cement a Strong Industry

The cement Industry of Pakistan makes a significant contribution of Rs.100 billion in the Gross Domestic Product of Pakistan. The cement industry generates Rs. 30 billion of tax revenue for the country. The cement industry of Pakistan is spread all over the country and contributing in the economic development by providing employment to more than one hundred thousand people. This industry also makes a considerable contribution in the exports of Pakistan and consequently earns foreign exchange for the country.

### 2. Maintained Growth of Production and Exports

The considerable growth has been seen in the cement industry of Pakistan. In this regard production of cement has increased and the exports of cement industry have also been raised. The total cement production has increased to 38 million tonnes from 9 million tonnes. Although the total cement production of the country is very lower than the rival country India which has 155 million tonnes of production. The friend country China has cement production of 111 million tons of China. Pakistan is also increasing its cement production due to increasing demand of cement in the domestic and international market.

### 3. Easy Access to Production Resources

A significant advantage to the cement industry of Pakistan is that almost all the inputs like raw materials and labours, required for the production of cement, are easily available in the vicinity or within the country at cheaper rates.

### 4. Surplus Production for Local and Export Markets

The Pakistani cement industry has a surplus production capacity of approximately 12 million tonnes of cement and if this capacity is utilized, the additional produced cement could be exported in order to earn foreign exchange of approximately US Dollars 750 million.

### **5. Good International Reputation**

The grey cement produced in Pakistani has a very good reputation in the international market. The foreign buyers consider this cement as a best quality product. That is why the demand of our cement in foreign market is frequently rising.

### **CRITICAL EVALUATION OF CEMENT INDUSTRY**

The cement industry is considered as one of the important industries of Pakistan and it has a huge impact on the economy of Pakistan on various fronts. Despite the positive things of cement industry of Pakistan, there are some serious points on the progress and growth of the sector which were found during the study. These negative aspects of the sector need to be highlighted, evaluated and resolved seriously and properly. Following are the issues of cement industry of Pakistan which are hurdle on the way of rapid progress and growth.

#### **1. Market Structure**

Though the cement industry of Pakistan comprises of a relatively large number of manufacturing units but due to oligopolistic structure of the cement market in the country, the top five players have a control of more than 55% share. Geographically north regions captures about 83% of the total share of cement while south region has a share of around 17% production. Moreover, the barriers for entry of new participants are high as there is an overcapacity hang in the sector and substantial preliminary investment is required to set up the plant in the cement industry.

Throughout the cement industry in the country, the products are homogenous with non-existent levels of product differentiation as the major product for most manufacturers is Ordinary



Portland Cement with the share of approximately 90% to 94%. Furthermore, the other major types of cement product by plants in Pakistan also include Sulphate Resisting Cement, Blast Furnace Slag Cement and White Cement. This means that competition is based on proximity to raw materials and markets and it tends to limit small manufacturers of cement as far as price setting in the industry is concerned.

At the outset, the cement industry does not face any major barriers to entry. But manufacturers cost structures have increasingly exerted a huge pressure on small manufacturers of cement to bring in cost efficiencies or they are forced to get themselves out of the market. Cost structures are maintained in such a way that they protect the interests of the manufacturers as opposed to that of consumers.

Moreover, government policies are also in favor of the cement sector with extensive lobbying being done by the APCMA to maintain such policies.

## 2. Under-Utilized Capacity

The industry could not succeed to utilize its full capacity of production. The following table shows the under-utilized capacity of cement industry.

Years	Production Capacity	Total Dispatches	Capacity Utilization
2003-2004	17.279	13.663	79.08%
2004-2005	17.909	16.353	91.32%
2005-2006	20.83	18.554	89.08%
2006-2007	30.50	24.262	79.23%
2007-2008	37.68	30.293	80.14%
2008-2009	42.28	31.306	74.05%
2009-2010	45.34	34.216	75.46%

<b>2010-2011</b>	42.37	31.430	74.17%
<b>2011-2012</b>	44.64	32.515	72.83%
<b>2012-2013</b>	44.64	33.43	74.89%

### 3. Lack of Consumer Sovereignty

During the study it is also found that the manufacturers could not offer cement at competitive prices. The prices of cement were comparatively higher than the other cement producing countries. Some lame excuses are given by the manufacturers for charging high prices such as high cost of raw material, increasing cost of energy and depreciation cost of Pak Rupee etc. One the reasons of high prices of cement is cartel of the big companies to maximize their profit. They do not compromise on the high level of profit. Hence, by creating oligopoly market, they do not leave any choices for the consumers. Moreover, the producers influence the authorities to formulate such policies which are more favorable and beneficial to the manufacturers rather than the consumers.

### RECOMMENDATIONS

Following are the recommendations for the cement industry of Pakistan.

- Like other industries in Pakistan, the cement industry also lacks a long-term vision due to which it is unable to identify the shortcomings in the way of its sustained growth. Therefore the cement industry should develop long-term and strategic vision to enhance its production and exports.
- It is really very important for every industry to adopt modern technology for improvement of its production efficiency, so the cement industry should adapt new and advanced technology in order to produce best quality cement to meet the local demand and export demands.

- The cement industry of Pakistan should also adapt a most advanced technology for energy conservation and environmental improvement.
- The cement industry should not be dependent on cartelisation for revenue generation; it should find other means for profit maximization. The government should intervene to restrict these cartels.
- There is no any research & development centre in the cement sector that could work for efficiency in production, quality, marketability and conducting feasibility for production of new products, optimising production cost and expansion of cement industry.
- Government should decrease tax rate on cement which is comparatively higher than other cement producing countries.
- Government should make serious efforts to minimize cost of energy of cement industry as it is more than half of the total COGS.
- The government should devise friendly policies in order to promote and encourage the cement industry.
- The government should make railway completely operational because it is the most reliable and cheapest source of transportation for not only cement industry but also for the entire industry.

## CONCLUSION

From the research study, we come to the following conclusion.

- The cement industry of Pakistan had gone through many experiments and practices. Cement industry experienced nationalization, denationalization and privatization.
- Cement industry plays a very important role in the economic development of Pakistan.

- The role of cement industry in the economic development had been very reasonable as it contributed in the economy in terms of profit, investment, returns to investors, taxes, assets, equities, sales volumes and number of employees.
- However, the performance of cement industry did not remain satisfactory on account of optimum utilization of the total capacity of plant and the achievement of desired level of indigenization.
- The cement industry could not produce satisfactory skilled and trained manpower.
- Cartelization has a negative impact on the cement industry.
- Cost of Energy is the main issue that affected cement industry of Pakistan.

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