Chapter 1

Growth and Investment

Introduction

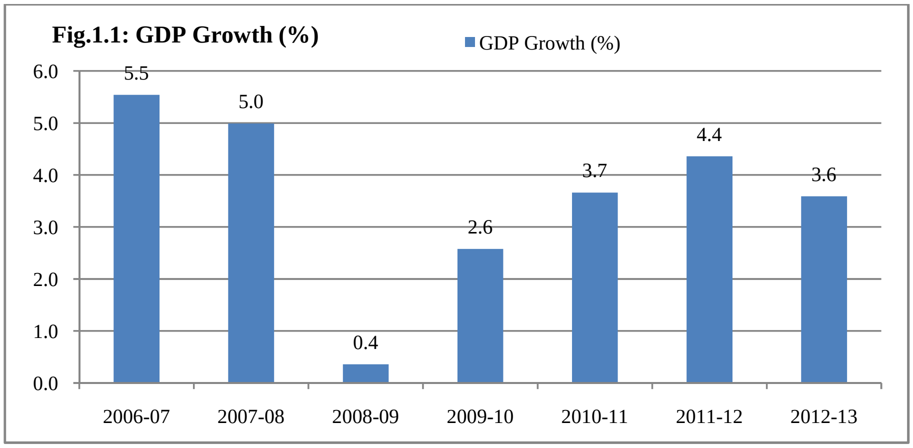
Pakistan's economy continues to face numerous domestic and external shocks from 2007 onwards. Economic performance was affected from the devastating floods and rains, the internal security hazards, and the energy crisis. The economy of Pakistan during the last five years grew on average at the rate of 2.9 percent per annum. Deterioration in the power sector is the main constraint on growth. It is true that the energy crisis is frustrating the realization of our true economic potential. Power outages have shaved off annual GDP growth 2 percent. Gross Domestic Product (GDP) growth has been stuck at a level, which is half of the level of Pakistan's long-term trend potential of about 6.5 percent per annum and is lower than what is required for sustained increase in employment and income and a reduction in poverty. The past few years' economic performance has suggested that the country has the potential to move towards which is needed to generate adequate employment and meaning full poverty reduction provided that power crises is addressed.

The framework for economic growth approved by the government in FY11 identifies the restructuring of public sector enterprises as a key focus area. It is an approach to accelerate economic growth and sustain. It identified a coherent approach to growth that goes well beyond projects and targets public service delivery, productivity, competitive markets, innovation and entrepreneurship. The strategy is based on sustained reform that builds efficient and knowledgeable governance structure, and markets in attractive and well-connected locations. It focuses on the 'software' of economic growth (issues of economic governance, institutions, incentives, human resources, etc.), and provides an environment in which the 'hardware' of growth (physical infrastructure) could be expanded and productive at every level. However, the desired output is yet to be realized.

Aimed of the challenges at external and domestic front and slow growth in Euro-zone, our economy is showing modest improvement. The commodity producing sectors (agriculture plus industrial sector) are picking up economic activities gradually. The performance of the agriculture sector remained good due to better availability of seeds, fertilizers and weather conditions, stimulated healthy activities in other sectors of the economy due to its forward and backward linkages. However, the achievements remained behind the desired targets. Some improvement is also witnessed in the Large Scale Manufacturing (LSM) sector. The Service sector also gained from healthy wholesale and retail trade, finance and insurance activities and improvements in the commodity producing sectors. However the economic growth remained well below the potential of the economy due to number of shocks, which hampered economic activities. Pakistan has the potential to grow at 6 to 7 percent in the next couple of years which is also needed to absorb new workforce entrants.

The GDP growth for 2012-13 was targeted at 4.3 percent on the back of 4.0 percent growth in Agriculture, 2.5 percent growth in LSM and 4.6 percent in Services sectors. However, the heavy rains in Sindh and Punjab province damaged the crops which affected performance of agriculture and other related sectors.

The real GDP growth for 2012-13 has been estimated at 3.6 percent based on nine month data as compared to 4.4 percent (revised) in the previous fiscal year 2012 after rebasing the national accounts at constant prices of 2005-06. The Agriculture sector recorded a growth of 3.3 percent against the previous year's growth rate of 3.5 percent. The Large Scale Manufacturing sector grew by 2.8 percent as compared to the growth of 1.2 percent in the last year. The Services sector recorded a growth of 3.7 percent as compared to 5.3 percent in 2011-12. Figure-1.1 presents an overview of GDP growth over the previous years.



The 3.6 percent growth based on the nine months data 2012-13, up from 0.4 percent in 2008-09 and lower than 4.4 percent of the last year. The country has enormous potential to grow at much higher rate which is demonstrated by the achievement of the 3.6 percent growth this year despite the numerous internal and external challenges like energy crises and law and order situation brought on by the campaign against extremism with its associated destruction of physical infrastructure etc.

Some economic problems of Pakistan are structural in nature. The targets of sustaining high growth, low inflation, and external payment capability can not be achieved without eliminating certain structural barriers. Major structural reforms which are needed contains tax legislation, trade reforms, further privatization of State Owned Enterprises (SOEs), financial sector reforms, human resource development and social protection. The EU approval of duty waiver on textile items will certainly help in improving the exports and providing the support to the business environment. Pakistan-China multi-dimensional cooperation for peace and development deepened further with the signing of an agreement on February 18, 2013, for the handing over operations of Gawadar deep seaport to China Overseas Port Holding Authority (COPHA). The handover of the Gawadar Port to COPHA will boost the economic activities in the region. COPHA has assured to invest $750 million to improve the infrastructure. The new investment and the antecedent development activity will create thousands of new jobs in the country and making Gawadar a regional hub of economic and trade activities.

Pakistan has also undergone the general election recently, the election results indicates that people of Pakistan are well aware with their rights and socio-economic needs in this global village. There are expectations that new governments will launch more investment and growth friendly policies in a comprehensive way. Domestic and foreign investors will gain confidence to initiate new business activities on a peaceful democratic transition which will increase production, employment and stability in the economy.

Global Developments

Four years after the onset of the global financial crisis, the world economy continues to struggle for uplift of economic activities. Developing economies are still the main driver of global growth, but their output has slowed compared with the pre-crisis period. To regain pre-crisis growth rates, developing countries must once again emphasize internal productivity enhancing policies. To keep growing rapidly, developing countries will need to maintain the reform momentum that underpinned the acceleration of growth during the 1990s and 2000s. In the absence of additional efforts to raise productivity through structural reforms, investment in human capital, and improved governance and investment conditions, developing countries growth may not improve.

The *Asian Development Outlook 2013* estimates regional growth will pick up to 6.6% in 2013 and to reach 6.7% in 2014. While this is a distinct improvement on 2012, when growth stood at just over 6%, it is far from the double-digit pace before the global financial crisis. But in many ways this new Asian reality is a positive development. Asia's contributions to global imbalances—its persistent current account surpluses—are smoothly winding down. With the major industrial economies expected to grow by only 1% in 2013, the role of domestic demand and intra-Asian trade will continue to expand. The rising importance of intraregional trade is evident in Southeast Asia. Economies in the

Association of Southeast Asian Nations (ASEAN) will maintain their robust growth supported by increasingly strong trade ties within Asia. Making this vision a reality will further enhance Asia's dynamism. Looking further ahead, Asia must secure sufficient energy to drive economic expansion in the decades to come. The region already consumes roughly a one third of global energy, and is set to rise to over half by 2035. Asia must also prioritize renewable energy supplies and new technologies that can make conventional power cleaner and more efficient.

Emerging markets and developing economies are still going strong, but in advanced economies, there appears to be a growing bifurcation between the United States on one hand and the Euro Area on the other. The International Monetary Fund (IMF) has reflected in the forecasts that entire world economy growth is forecasted to reach 3.3 percent in 2013 and 4.0 percent in 2014. IMF has warned the Euro Area growth at -0.3 percent in 2013 and 1.1 percent in 2014. The forecast for negative growth in the Euro area reflects not only weakness in the periphery but also some weakness in the core. Germany's growth is strengthening but is still forecast to be less than 1 percent in 2013. In contrast to this growth US is forecasted to be 1.9 percent in 2013 and 3.0 percent in 2014. In this scenario China has remained a bright spot as its growth rate is forecasted at 8.0 percent for this year and 8.2 percent for the year 2014. If China maintains its growth, it's good for the world, providing support for commodities markets and growth in other countries.

The IMF maintained its forecast of 1.6 percent growth for Japan for 2013 and for 2014 it is 1.4 percent. Growth in developing Asian economies is projected at 7.1 percent in 2013 and 7.3 percent for the year 2014. The IMF expects growth in oil exporting countries in the Middle East is also not much encouraging. The growth forecast for African and South Asian countries are better for the year 2013 and also for 2014. The country wise details of projections are provided in table 1.1. Unfortunately, Europe is now caught in a vicious cycle of high debt and low growth. Highly burdened by debt, most of the economies in the region may not attain respectable levels of growth to improve their fiscal position. This will imply potential debt servicing difficulties which limit their abilities to tap their growth potential. More than 17 percent of total exports of Pakistan have their destination in the Euro zone and a reasonable portion of its total import from this region. Problems in this area can impact Pakistan's trade and hence its overall growth. Asia on the other hand, continues to move ahead with China and India leading the growth.

Table-1.1: Comparative Real GDP Growth Rates (%)

Region/Country	2009	2010	2011	2012	2013	2014 (P)
World GDP	**-0.6**	**5.2**	**4.0**	**3.2**	**3.3**	**4.0**
Euro Area	-4.4	2.0	1.4	-0.6	-0.3	1.1
United States	-3.1	2.4	1.8	2.2	1.9	3.0
Japan	-5.5	4.7	-0.6	2.0	1.6	1.4
Germany	-5.1	4.0	3.1	0.9	0.6	1.5
Canada	-2.8	3.2	2.6	1.8	1.5	2.4
Developing Countries	6.9	9.9	8.1	6.6	7.1	7.3
China	9.2	10.4	9.3	7.8	8.0	8.2
Hong Kong SAR	-2.5	6.8	4.9	1.4	3.0	4.4
Korea	0.3	6.3	3.6	2.0	2.8	3.9
Singapore	-0.8	14.8	5.2	1.3	2.0	5.1
Vietnam	5.3	6.8	5.9	5.0	5.2	5.2
	ASEAN					
Indonesia	4.6	6.2	6.5	6.2	6.3	6.4
Malaysia	-1.5	7.2	5.1	5.6	5.1	5.2
Thailand	-2.3	7.8	0.1	6.4	5.9	4.2
Philippines	1.1	7.6	3.9	6.6	6.0	5.5
	South Asia					
India	5.0	11.2	7.7	4.0	5.7	6.2
Bangladesh	5.9	6.4	6.5	6.1	6.0	6.4
Sri Lanka	3.5	8.0	8.2	6.4	6.3	6.7
Pakistan	**0.4**	**2.6**	**3.7**	**4.4**	**3.6**	**4.4**

Table-1.1: Comparative Real GDP Growth Rates (%)

Region/Country	2009	2010	2011	2012	2013	2014 (P)
			Middle East			
Saudi Arabia	1.8	7.4	8.5	6.8	4.4	4.2
Kuwait	-7.1	-2.4	6.3	5.1	1.1	3.1
Iran	3.9	5.9	3.0	-1.9	-1.3	1.1
Egypt	4.7	5.1	1.8	2.2	2.0	3.3
			Africa			
Algeria	1.7	3.6	2.4	2.5	3.3	3.4
Morocco	4.8	3.6	5.0	3.0	4.5	4.8
Tunisia	3.1	3.1	-1.9	3.6	4.0	4.5
Nigeria	7.0	8.0	7.4	6.3	7.2	7.0
Kenya	2.7	5.8	4.4	4.7	5.8	6.2
South Africa	-1.5	3.1	3.5	2.5	2.8	3.3

Source: World Economic Outlook (IMF), April 2013.
P: Projected.

Economy of Pakistan is closely linked to the rest of the world due to its strategic position and high external sector exposure. A contraction or stagnation in economic activity in the global economy, can potentially affect the level of our exports, foreign direct investment (FDI) and home remittances.

Box-1
Re- Basing the National Accounts from 1999-2000 to 2005-06

National accounts aggregate at constant prices provide important indicators for measuring growth in the economy. All countries are compiling national accounts aggregate at current and constant prices. They also update the base year periodically. It is a fact that structural change takes place in production of goods/services and in the relative prices of various items in any economy over a period of time. On account of continuous process of development and innovations a number of new products appear in the market and at the same time many products disappear, moreover quality changes also result in the non-comparability of goods and services among periods. Furthermore, on the demand side of the economy consumption and investment patterns also experience structural changes. All these factors make it necessary to rebase the National Accounts series periodically. Rebasing the National Accounts captures the structural changes in the economy and thus gives a more accurate description.

Majority of the countries, namely Bangladesh, Hong Kong China, India Nepal, Philippines, Sri Lanka and Thailand undertake their rebasing exercise at a gap of 10 years. Macau China, Malaysia, Republic of Korea and Singapore undertake their rebasing exercise at a gap of 5 years. Bhutan and Cambodia are in developing stage of their rebasing exercise. India is now going to rebase its national accounts series every 5 years. Presently India and Bangladesh having 2004-05 and 1995-96 base year respectively.

The national accounts of Pakistan had been estimated on current prices until the base was set as 1959-60 which was adopted in 1962-63. The first change of base took place in 1987 when the year 1980-81 was adopted as base year. The next change of base was adopted in 2003 setting the base as 1999-2000.

This was established totally on the studies and the need was felt to change the base establishing it on the surveys which are definitely preferred to studies. Survey information is more reliable and objective than studies. Therefore the efforts started to rebase the national accounts and 2005-06 was selected as a base year, the CDWP approved a project named "Rebasing of National Accounts (RNA) from 1999-2000 to 2005-06". The project continued up to June 2010. Surveys were conducted for the major sectors and studies were designed to fill the small gaps and to capture emerging fields. Observing the performance of the economy and its main macro-economic variables requires fairly long time series of data which are comparable to those of other countries. Therefore, it is necessary for National Accounts to keep the methods, concepts and definitions of the respective figures constant over time and space. All necessary changes are to be stalled and then implemented as a bundled exercise called "rebasing" or "revision". According to international recommendation such a revision should be undertaken every five to seven years. Pakistan has now completed its rebasing for the year 2005-06. The new base year will replace the existing one of 1999-2000. It implemented

- New censuses, surveys, studies
- New price basis
- New concepts (System of National Accounts)
- Changes in classifications

As a result of re-basing, Gross Domestic Product (GDP) estimates for 2005-06 have improved from Rs.7159 billion to Rs. 7716 billion, showing an increase of 7.8 % over the old base estimates. Estimates of the agriculture sector improved by 21.8 %, the industrial sector changed by -16.0 % and the services sector by 14.5 % over the old base. Per capita income has been estimated at Rs.53846 ($897) for the re-based year 2005-06 as compared to Rs.49276 ($823) on the basis of the 1999-2000 base. Similarly, estimates of fixed investment have improved by 73.2 % to Rs.1457 billion over 1999-2000 based estimates of Rs.841billion.

Comparative Statement of GDP & GCFC Estimates for the period 2005-06 (Rs. Billion)

	Base 2005-06	Base 1999-2000	%Change
GDP	7716	7159	7.8
Agriculture	1775	1457	21.8
Industry	1616	1927	-16.0
Services	4324	3778	14.5
GCFC	1457	841	73.2
Agriculture	255	70	264.3
Industry	392	245	60.1
Services	612	403	52.0
General Government	198	123	60.6

Pakistan's National Accounts are calculated on annual basis. After finalizing the rebasing 2005-06, the annual time-series will be quarterized and quarterly accounts will be launched. Supply and use tables for the base year 2005-06 will also be prepared. It will help in future to produce the supply – use tables along with the future rebasing which will provide the synergy to the estimation.

Sectoral Analysis of Growth

It is important to examine the performance of various sectors and subsectors of Gross National Product (GNP) to recognize what is happening to overall economic growth. The growth performance of all specified components of GDP over the last seven years is presented in table-1.2. These data indicates the relative importance of various sectors and sub-sectors and their inter- relationship.

Table 1.2: Growth Rate (%)

Sectors/Sub-Sectors	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-2013(P)
1. Agriculture	**3.4**	**1.8**	**3.5**	**0.2**	**2.0**	**3.5**	**3.3**
Crops	4.4	-1.0	5.2	-4.2	1.0	2.9	3.2
Important Crops	6.5	-4.1	8.4	-3.7	1.5	7.4	2.3
Other Crops	2.1	6.0	0.5	-7.2	2.3	-7.7	6.7
Cotton Ginning	-0.8	-7.0	1.3	7.3	-8.5	13.8	-2.9
-Livestock	2.8	3.6	2.2	3.8	3.4	3.9	3.7
-Forestry	2.7	8.9	2.6	-0.1	4.8	1.7	0.1
-Fishing	0.4	8.5	2.6	1.4	-15.2	3.8	0.7
Industrial Sector	**7.7**	**8.5**	**-5.2**	**3.4**	**4.7**	**2.7**	**3.5**
2. Mining & Quarrying	7.3	3.2	-2.5	2.8	-4.4	4.6	7.6
3. Manufacturing	9.0	6.1	-4.2	1.4	2.5	2.1	3.5
-Large Scale	9.6	6.1	-6	0.4	1.7	1.2	2.8
-Small Scale	8.3	8.3	8.6	8.5	8.5	8.4	8.2
-Slaughtering	3.2	3.3	3.8	3.2	3.7	3.6	3.5
Electricity Generation & Distribution & Gas Distt	-12.8	37.2	-12.1	16.7	66.4	2.7	-3.2
4. Construction	12.9	15.4	-9.9	8.3	-8.6	3.2	5.2
Commodity Producing Sector (A+B)	**5.5**	**5.1**	**-0.9**	**1.8**	**3.3**	**3.1**	**3.4**
Services Sector	**5.6**	**4.9**	**1.3**	**3.2**	**3.9**	**5.3**	**3.7**
7. Wholesale & Retail Trade	5.8	5.7	-3.0	1.8	2.1	1.7	2.5
6.Transport,Storage and Communication	6.9	5.5	5.0	3.0	2.4	8.9	3.4
8. Finance & Insurance	9.1	6.3	-9.6	-3.3	-4.2	1.0	6.6
Housing Services (Ownership of Dwellings	4.0	4.0	4.0	4.0	4.0	4.0	4.0
General Government Services	2.7	0.2	5.6	8.0	14.1	11.1	5.6
Other Private Services	4.6	5.4	6.5	5.8	6.6	6.3	4.0
GDP (fc)	**5.5**	**5.0**	**0.4**	**2.6**	**3.7**	**4.4**	**3.6**

Sources: Pakistan Bureau of Statistics
P: Provisional

Commodity Producing Sector

The commodity producing sector (CPS) consists of agriculture and industry. It is the most central sector of the economy with relatively stronger forward and backward linkages for economic development and prosperity of the country. It accounted for 42.3 percent of GDP after rebasing of national accounts during the outgoing fiscal year. It witnessed a decline from 44.0 percent of GDP in 2005-06, representing that the share of the non-commodity producing sector has improved. The commodity producing sector has performed better in outgoing fiscal year as compared to last year; its growth rate this year was 3.4 percent against the growth of 3.1 percent last year. Both agriculture and industrial sector, have contributed to its growth. However, the growth of the commodity producing sector remained far below its potential due to heavy rains, energy crises, law and order situation etc.

Agriculture Sector

In spite of persistently falling share in GDP agriculture remains a key sector of the economy. It provides food items and raw materials for industrial units and accounts for 21.4 percent of GDP, 45 percent of employment and also contributes in the development of other sectors as a supplier of raw materials to industry as well as a market for industrial products and is also the main source of foreign exchange earnings. Majority of the population lives in rural areas and are directly and indirectly rely on agriculture sector for their livelihood. The agriculture sector has strong backward and forward linkages. As a result its growth has a larger impact on the overall economic performance. The performance of the agriculture sector remained weak due to unfavorable weather conditions which results in lower production of cotton and rice.

However, this sector resulted in a growth of 3.3 percent against the growth of 3.5 percent last year. The decline in its growth was due to fall in the estimated rice and cotton production but somehow compensated by the better output of other crops. The performance is mainly attributed to a sharp pick-up in the wheat and sugarcane. Livestock also registered a significant growth. The agriculture sector consists of various sub-sectors which include crops, livestock, fisheries and forestry. The crop sub-sector is further divided into important crops, other crops and cotton ginning.

Important Crops: The important crops account for 25.24 percent of agricultural value addition and registered a growth of 2.3 percent compared to a growth of 7.4 percent last year. The important crops including wheat, maize, rice, sugarcane and cotton witnessed growth in production of 3.23 percent, 6.74 percent,-10.05 percent, 6.98 percent and -4.19 percent respectively. The main reason for the negative growth of rice and cotton are unfavorable weather conditions and affects of rains in the rice and cotton growing areas.

Other Crops: Other crops contributed 12.34 percent to value addition in overall agriculture. Growth in the production of this sub-sector is recorded at 6.7 percent against the negative growth of -7.7 percent last year. This growth is picked up mainly by the growth in Gram by 136.6 percent against the negative growth of -42.7 percent last year and potatoes by 11.0 percent against -2.8 percent last year. The positive growth is also observed in vegetables and other minor items. The negative growth is observed in mango, banana, dates, orange, water melon, apricots, canola and tobacco etc.

Cotton Ginning: Cotton is a natural fiber used primarily as a raw material for textiles and Pakistan is one of the leading producers of cotton in the world. Textile fibers are divided into three basic types according to their sources such as cotton fiber, manmade fiber and wool. Ginning is the first mechanical process involved in the processing of cotton. Ginning is the process for separating lint from the seed to cotton. Cotton Ginning has a 2.91 percent share in overall agriculture sector. Cotton Ginning has recorded a growth of -2.9 percent as compared to 13.8 percent growth in last year due to less production of cotton as compared to last year. Previously it was a component of manufacturing sector, now in rebasing of national accounts 2005-06, it is included in the agriculture sector.

Livestock: Livestock is an important sub sector of agriculture, which accounts for 55.44 percent of agriculture value addition. It is highly labour intensive and a good source of job creation; its share in agriculture is much more than combined shares of all other subsectors of agriculture. Its share in GDP is 11.9 percent. Livestock includes cattle, buffalos, sheep, goat, camel, horses, asses, mules and poultry and their products. The demand for livestock has grown at a phenomenal pace. The increase in prices has provided incentive for greater production and spurred growth. The importance of this sector may be recognized by the fact that the majority of people living in rural areas depends directly or indirectly on the livestock and dairy sector. This sub-sector is highly labour intensive. It has also emerged as a major source of income for the small farmers as well as the landless rural poor.

Livestock has recorded a growth of 3.7 percent against the growth of 3.9 percent last year. The production of milk, poultry products and other livestock items has increased at the rate of 3.2 percent, 7.3 percent and 1.1 percent respectively.

Fisheries: The fisheries sector having 2.05 percent share in agriculture recorded a growth of 0.7 percent against the growth of 3.8 percent last year. The sub-components of fisheries such as marine fishing and in-land fishing contributed to an overall increase in value addition in the fisheries sub-sector. The gross value addition of marine fish augmented by 0.43 percent and inland fish by 0.76 percent.

Forestry: The growth of the forestry sub-sector is recorded at 0.1 percent as compared to the growth of 1.7 percent last year. Forests are a key component of our environment and degradation of forests can pose severe socio-economic challenges for the coming generations. The share of forestry sub-sector in agriculture is 2.03 percent having main components of forestry, timber and fire wood.

Manufacturing Sector: The manufacturing sector is another important sector of the economy having much contribution in the progress of our economy. The manufacturing sector is one component of the industrial sector capturing 63 percent share of the overall industrial sector. It has been hard hit by domestic and international factors. Power crises, unstable law and order situation, campaign against terrorism have created uncertain environment, resulting in loss of working hours. This sector has also been badly affected by acute energy shortages. Continuous power breakdowns prevented industries from operating at their capacity level. All these factors have caused slower growth in manufacturing sector. The share of the manufacturing sector in GDP was 14.4 percent in 2007-08. This has slightly decreased to 13.2 percent of GDP in 2012-13. The growth of the manufacturing sector is recorded at 3.5 percent compared to the growth of 2.1 percent last year.

Manufacturing having 63 percent share in overall industrial sector has three main sub-components; namely the Large-Scale Manufacturing (LSM) with the share of 50.9 percent, Small Scale Manufacturing with the share of 7.6 percent and Slaughtering with the share of 4.5 percent. Small scale manufacturing recorded growth at 8.2 percent as compared to 8.4 percent last year and slaughtering growth is estimated at 3.5 percent against 3.6 percent last year. Large Scale Manufacturing (LSM) has witnessed a slight improvement. It has shown a growth of 2.8 percent against the growth of 1.2 percent last year. The major LSM industries which registered notable growth include; refrigerators 9.11 percent, electric transformers 17.4 percent, knitting wool 14.55 percent, cooking oil 14.75 percent, beverages 20.06 percent, tea blended 20.13 percent, petroleum products 11.48 percent, injections 17.0 percent, paints and varnishes 28.18 percent, tractors 60.94 percent, paper and board 27.42 percent, motor tyres 21.76 percent and plywood 20.17 percent etc. On the whole 45 major industries group recorded positive growth. The industries which reported negative growth include; woolen and carpet yarn -7.52 percent, sugar –2.82 percent, toilet soap -7.54 percent, glass plates and sheets -9.50 percent, buses -9.09 percent, Nit. fertilizers -7.75 percent, deep freezers -16.86 percent, air conditioners -15.36 percent, electric tubes -23.08 percent, heavy machinery & equipment -15.23 percent, diesel engine -50.72 percent, sugarcane machines -44.51 percent, chip board 20.56 percent etc.

Construction Sector: The construction sector is one of the potential components of industrial sector having 11.42 percent share in overall industrial sector. The construction sector has recorded 5.2 percent growth as compared to 3.2 percent growth last year. The increase in growth is due to rapid execution of work on the rehabilitation of the flood affected areas, increased investment in small scale construction and rapid implementation of PSDP schemes and other development projects of federal and provincial governments.

Mining and Quarrying: The mining and quarrying component contains 14.74 percent share of the overall industrial sector. Pakistan has economically exploitable reserves of coal, rock salt, limestone and onyx marble, china clay, dolomite, fire clay, gypsum, silica sand and granite, as well as precious and semi- precious stones. Extraction of minerals and ores through efficient mining and quarrying provides convenient and economical access to raw materials and a competitive edge to the country. The mining and quarrying sector recorded a growth of 7.6 percent during the year 2012-13 against the growth of 4.6 percent last year. The output of crude oil, iron ore, bentonite, marble, lime stone, gypsum, and shale clay increased by 15.83 percent, 55.33 percent, 65.90 percent, 83.93, 10.68, 2.94 and 43.17 percent, respectively. The output of copper declined by -12.12 percent, chromite by -10.13 percent, granite by -16.39 percent and chalk by -71.30 percent. Much of the country's mining reserve exists in remote areas. Infrastructure improvements are necessary to sustain and achieve higher growth rates in future. Improvement in the security situation in the country would also lead to greater production in near future.

Electricity generation & distribution and Gas Distribution: The electricity generation & distribution and gas distribution contains 10.86 percent share in overall industrial sector. This sub-sector has recorded a negative growth at -3.2 percent as compared to 2.7 percent last year. The output of electricity WAPDA component recorded negative growth -5.61 percent as compared to 16.29 percent last year, whereas KESC has positive growth of 5.40 percent as compared to negative growth of -0.69 percent growth last year. Gas distribution recorded negative growth of -9.52 percent in grass value addition as compared to 40.98 percent growth last year.

Services Sector:

The services sector has been growing at a faster pace than the commodity producing sector of the economy for quite some time. This sector has emerged as the main driver of economic growth and playing a vital role in sustaining economic activities in Pakistan. The economy has gone through a major transformation in its economic structure. The share of the services sector has increased from 56 percent of GDP in 2005-06 to 57.7 percent in 2012-13. In developed countries the share of services sector in GDP is around 75 percent. This share is 73 percent in Singapore, 65 percent in India, and 54 percent in Bangladesh.

The services sector consists of the following sub-sectors: Transport, Storage and Communication; Wholesale and Retail Trade; Finance and Insurance; Housing Services (Ownership of Dwellings); General Government Services (Public Administration and Defense); and Other Private Services (Social Services). The Services sector has recorded a growth rate of 3.7 percent in 2012-13. This performance is mainly contributed by Finance and Insurance at 6.6 percent, General Government Services at 5.6 percent, Housing Services at 4.0 percent, Other Private Services at 4.0 percent, Transport, Storage and Communication at 3.4 percent and Wholesale and Retail Trade at 2.5 percent. Services sector in our economy has a great potential to grow at a rapid pace. In order to develop the services sector, Pakistan has recognized the needs to liberalize operating rights and has separated regulators from operators.

Finance and Insurance Sector: The finance and insurance sector contributed 5.2 percent in the over all services sector in 2012-13. The finance and insurance sector comprises the State Bank of Pakistan; all scheduled banks (domestic and foreign), Development Financial Institutions (DFIs), all insurance (life and general) companies, Modaraba/Leasing companies, Money Changers and stock exchange brokers. The financial sub-sector consists of all resident corporations principally engaged in financial intermediations or in auxiliary financial activities related to financial intermediation. Pakistan's financial sector is integrated with the world economy and is reflected in its performance. This sector recorded a growth of 6.6 percent in 2012-13 as against of 1.0 percent last year.

Transport, Storage and Communication: The Transport, Storage and Communication (TS&C) sector is playing very important role in boosting the economic activities in the country. The value added in this sub sector is based primarily on the profits and losses of Pakistan Railways, Pakistan International Airlines and other airlines, Pakistan posts and courier services, Pak telecom and motors vehicles of different kinds on the road. This subsector has a share of 23.74 percent in overall services sector, but it directly and indirectly contributes in the growth of all sectors of the economy. The TS&C sub-sector grew at 3.4 percent as compared to 8.9 percent last year. Due to bad performance of Railways its growth has declined by -471.03 percent, Water Transport has declined by -4.04 percent during 2012-13, and Air Transport has increased by 38.22 percent. Sub-sectors pipeline transport showed a positive growth of 2.46 percent, communication 8.07 percent, road transport recorded a growth of 2.24 percent and growth in storage is estimated at 2.31 percent.

Wholesale and Retail Trade Sector: The wholesale and retail trade is the largest subsector of the services. Its share in the overall services sector is estimated at 31.5 percent. The wholesale and retail trade sector is based on the margins taken by traders on the transaction of commodities traded. In 2012-

13, this sector grew at 2.5 percent as compared to 1.7 percent in the last year.

General Government Services: The General Government Services (Public Administration and Defense) recorded a growth of 5.6 percent as compared to 11.1 percent last year. The positive change in the wage component of public sector employees, and an increase in defense and security related expenditures were main contributors in its growth. The share of this sub sector is estimated at 11.74 percent in the overall services sector.

Housing Services: The Housing Services (Ownership of Dwellings) has maintained the growth of 4.0 percent during the year 2012-13 compared to the same of last year. Its share in services sector is estimated at 11.68 percent. Other Private Services (Social Services) having a share of 16.18 percent in the overall services sector grew by 4.0 percent against the last year's growth of 6.3 percent. The growth in the Housing Services and other private services is mainly the outcome of the fast track work on reconstruction and rehabilitation of flood affected areas by the government, NGOs and private sectors.

Contribution to Real GDP Growth

(Production Approach)

Just like the previous years the contribution to economic growth is dominated by the services sector and the contribution of commodity producing sector has declined. The services sector contributed 59.61 percent to overall economic growth; while the commodity producing sector (CPS) shared only 40.39 percent. The agriculture sector contributed 20.06 percent to economic growth with almost same contribution of 20.33 percent contributed by the industrial sector.

The overall growth of 3.59 percent is shared between the Commodity producing sector and Services sector. Within the commodity producing sector, agriculture contributed 0.72 percentage points to overall GDP growth, while industry contributed 0.73 percentage points. The services sector contributed the remaining 2.14 percentage points. The sectoral point contribution to the GDP growth is shown below in table-1.3.

Table 1.3: Sectoral Contribution to the GDP growth (% Points)

Sector	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Agriculture	**0.41**	**0.76**	**0.05**	**0.43**	**0.75**	**0.72**
Industry	**1.81**	**-1.15**	**0.71**	**0.99**	**0.56**	**0.73**
- Manufacturing	0.87	-0.60	0.19	0.34	0.29	0.46
Services	**2.77**	**0.75**	**1.81**	**2.24**	**3.05**	**2.14**
Real GDP (Fc)	**4.99**	**0.36**	**2.58**	**3.66**	**4.36**	**3.59**

Source: Pakistan Bureau of Statistics

Contribution to Real GDP Growth

(Aggregate Demand Side Analysis)

Consumption, investment and export are figuratively described as the three horses of troika that drives economic growth. In all economies of the world the expansion of output is the sum of consumption (both private and public), investment (public and private) and net exports of goods and services. Consumption comprises a major chunk of economic growth in almost all economies. Pakistan's economic growth is historically characterized as consumption-led growth and this is true for the recent years. Aggregate demand is the addition of consumption, investment and net exports (exports minus imports) of the goods and services. Pakistani society like other developing countries is a consumption oriented society, having a high marginal propensity to consume. As a result private consumption is the major sub-component of aggregate demand.

The demand side remained more insightful as the growth was driven by the private consumption expenditure reached to 76.98 percent of GDP, whereas public consumption expenditures are 10.68 percent of GDP. Total consumption expenditures has reached to 87.66 percent of GDP in 2012-13 compared to 88.86 percent of last fiscal year. Total consumption has declined 1.2 percent of GDP, private consumption decreased by 1.55 percent of GDP as it declined from 78.53 percent of GDP to 76.98 percent of GDP. While public consumption increased by 0.35 percent of GDP as it increased from 10.33 percent of GDP to 10.68 percent of GDP. Decline in consumption expenditure might be positive thing, if consumption is diverted to investment expenditure.

It is estimated that the improvement in economic growth in 2012-13 came mainly from the consumption with dominant play from private consumption on account of high flow of remittances. Consumption contributed 4.13 percentage point to overall economic growth, which is 67.99 percent contribution in growth. While the investment contributed only 0.21 percentage point, which is 3.39 percent contribution in overall growth. Net exports contributed 1.74 percentage points, which is 28.62 percent contribution in overall growth. Domestic demand continued to be the most significant driving force for economic growth, with private consumption being the major contributor for sustaining aggregate demand. Point contribution to the GDP growth is presented below in table-1.4.

Table-1.4: Composition of GDP Growth

Point Contribution

Flows	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Private Consumption	3.30	2.69	-0.56	1.32	3.37	4.50	3.13
Public Consumption	-0.11	-0.09	1.21	-0.06	0.00	0.73	1.00
Total Consumption [C]	**3.18**	**2.60**	**0.66**	**1.26**	**3.37**	**5.23**	**4.13**
Gross Fixed Investment	0.48	0.85	-0.70	-0.85	-0.98	0.21	0.11
Change in Stocks	0.08	0.03	0.05	0.03	0.04	0.06	0.10
Total Investment [I]	**0.56**	**0.88**	**-0.66**	**-0.82**	**-0.94**	**0.27**	**0.21**
Exports (Goods & Serv.) [X]	0.21	-0.62	-0.43	1.90	0.33	-2.09	1.36
Imports (Goods & Serv.) [M]	-0.88	1.16	-3.26	0.73	-0.02	-0.60	-0.37
Net Exports [X-M]	**1.09**	**-1.78**	**2.83**	**1.17**	**0.35**	**-1.49**	**1.74**
Aggregate Demand (C+I+X)	**3.96**	**2.86**	**-0.43**	**2.34**	**2.77**	**3.42**	**5.70**
Domestic Demand (C+I)	**3.74**	**3.48**	**0.00**	**0.44**	**2.44**	**5.50**	**4.33**
GDP MP	**4.83**	**1.70**	**2.83**	**1.61**	**2.79**	**4.02**	**6.07**

Source: Pakistan Bureau of Statistics

Composition of Gross Domestic Product

A growing economy witnesses a shift in sectoral pattern, analysis of which provides further insight into a country's growth dynamics. The economy of Pakistan is in the process of structural transformation, which most of the developing economies are experiencing all over the world. There is a clear shift away from the Commodity Producing Sector (CPS) to services sector. Commodity producing sector accounted for almost 62 percent of the GDP in 1969-70 which has come down to 42.3 percent in 2012-13. The turn down in the share of CPS is compensated due by increase in the share of the services sector. A further breakdown of the CPS shows that the share of the agriculture sector has been declining over time. In 1969-70, agriculture accounted for 38.9 percent of GDP. It has decreased gradually to 21.4 percent in 2012-13. The decline in the share of agriculture in GDP reflects that the non-agriculture sectors grew more rapidly as compared to the agriculture sector.

Scientific innovations and technological development encouraged all sectors of the economy but the manufacturing and services sectors benefitted more as compared to the agriculture sector. Structural, social and cultural characteristics attached with the agriculture sector, the higher risk and vulnerability to natural calamities have encouraged investors to switch towards the non-agriculture sectors, which also have more certain and higher profit margin. The share of agriculture to overall GDP will continue to decline as economic and technical development takes place. This is an unavoidable outcome of the process of growth and development.

It has been observed during the last two decades that the major impetus to economic growth has come from the services sector which has emerged as the main driver of the economic growth. Within the services sector, almost all the sub-sectors have rising contributions. The share of manufacturing in GDP has remained stagnant, at around 14.7 percent, for 30 years until 1999-2000. Its contribution to GDP has reached to 13.2 percent in 2012-13.

Table 1.5: Sectoral Share in Gross Domestic Product (GDP)

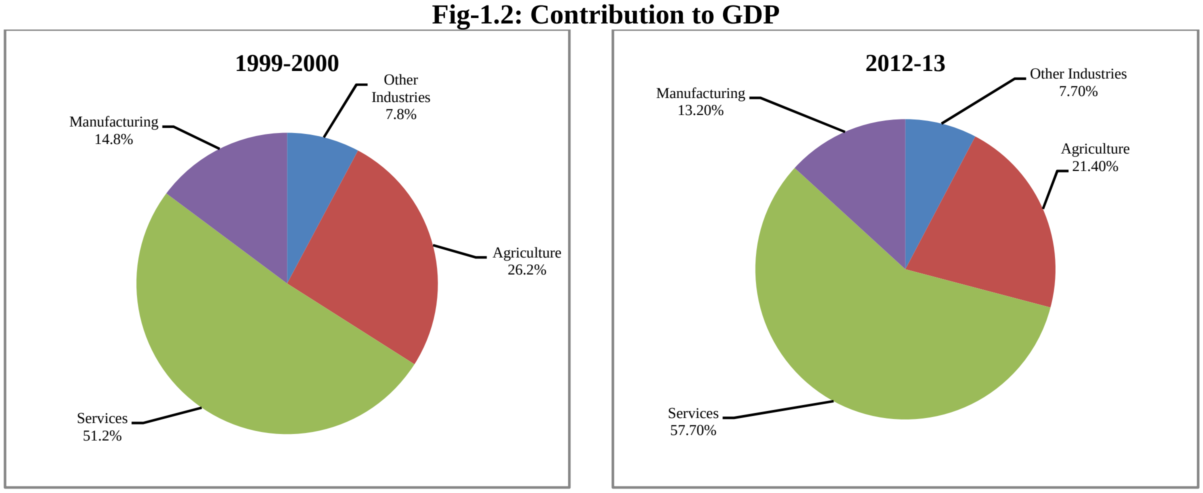
Sectors/Sub-Sectors	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
A. Commodity Producing Sector (A+B)	**44.0**	**43.9**	**44.0**	**43.4**	**43.1**	**42.9**	**42.4**	**42.3**
Agriculture	**23.0**	**22.5**	**21.9**	**22.5**	**22.0**	**21.7**	**21.5**	**21.4**
1. Crops	9.9	9.8	9.3	9.7	9.1	8.8	8.7	8.7

Table 1.5: Sectoral Share in Gross Domestic Product (GDP)

Sectors/Sub-Sectors	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Important Crops	5.8	5.9	5.4	5.8	5.4	5.3	5.5	5.4
Other Crops	3.3	3.2	3.2	3.3	2.9	2.9	2.6	2.6
Cotton Ginning	0.8	0.7	0.7	0.7	0.7	0.6	0.7	0.6
2. -Livestock	12.1	11.7	11.6	11.8	11.9	11.9	11.9	11.9
3. -Forestry	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.4
4. -Fishing	0.6	0.5	0.6	0.6	0.6	0.5	0.5	0.4
B. Industrial Sector	**20.6**	**21.4**	**22.1**	**20.9**	**21.0**	**21.2**	**20.9**	**20.9**
1. Mining & Quarrying	3.3	3.4	3.3	3.2	3.2	3.0	3.0	3.1
2. Manufacturing	13.8	14.3	14.4	13.8	13.6	13.4	13.2	13.2
-Large Scale	11.7	12.2	12.3	11.5	11.3	11.0	10.7	10.6
-Small Scale	1.2	1.2	1.2	1.3	1.4	1.5	1.5	1.6
-Slaughtering	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
3. Electricity Generation & Distribution & Gas Distt	1.4	1.2	1.5	1.3	1.5	2.5	2.4	2.3
4. Construction	2.4	2.6	2.8	2.5	2.7	2.4	2.3	2.4
C. Services Sector	**56.0**	**56.1**	**56.0**	**56.6**	**56.9**	**57.1**	**57.6**	**57.7**
1. Wholesale & Retail Trade	19.7	19.8	19.9	19.3	19.1	18.8	18.3	18.2
2.Transport,Storage and Communication	12.4	12.6	12.7	13.3	13.3	13.1	13.7	13.7
3. Finance & Insurance	3.7	3.8	3.8	3.5	3.3	3.0	2.9	3.0
4.Housing Services (Ownership of Dwellings	6.5	6.4	6.4	6.6	6.7	6.7	6.7	6.7
5. General Government Services	5.5	5.4	5.1	5.4	5.7	6.2	6.6	6.8
6. Other Private Services	8.1	8.1	8.1	8.6	8.9	9.1	9.3	9.3
GDP (fc)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Fig-1.2 shows the structural shift in the economy. During the last 13 years the sectoral share of the agriculture sector has decreased from 26.2 percent to 21.4 percent. The sectoral share of the manufacturing sector has changed from 14.8 percent to 13.2 percent and the share of other industries has remained more or less stagnant around 7 to 8 percent of the GDP over the last 13 years. The share of the services sector has increased from 51.2 percent to 57.7 percent in the same period. It may be concluded that on the whole structural transformation has been moderate during the period under discussion.

Fig-1.2: Contribution to GDP

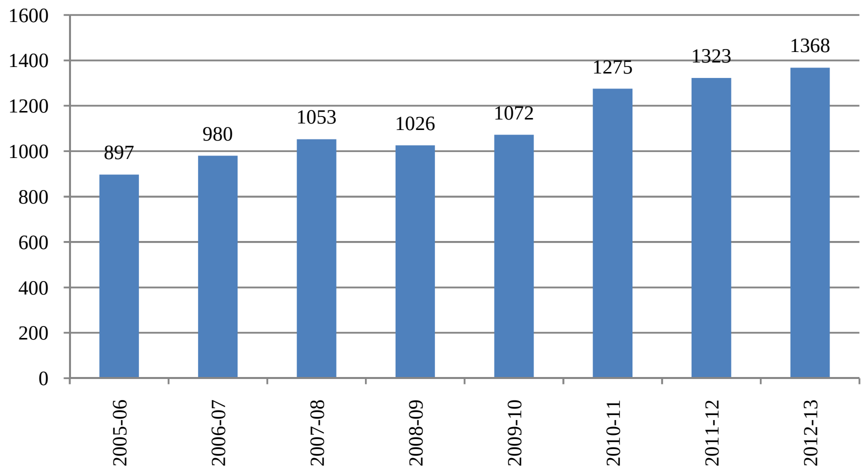


Per Capita Income:

Per capita income is regarded as one of the key indicators of economic well-being over a period of time. With the emergence of more analytical tools and sophisticated indicators, numerous indicators and measures of well being are added to economic literature. However, none of these could undermine the importance of per capita income in providing simple reflection of the average level of prosperity in the country or average standards of living of the people in a country. Per capita income is defined as Gross National Product at market price in dollar term divided by the country's population. Per Capita Income in dollar terms grew at a modest rate of 3.4 percent in 2012-13 compared to 3.8 percent growth last year.

The per capita income in dollar terms has risen from $ 897 in 2005-06 to $ 1,368 in 2012-13. The main factors, which are responsible for increase in per capita income, include acceleration in real GDP growth, relatively lower growth in population and the stable exchange rate. Fig 1.3 shows the improvement in per capita income during the last eight years.

Fig 1.3: Per Capita Income ($)



Investment and Savings

Investment has a key role in the determination of economic growth of a country. It increases the productive capacity of the economy, creates the employment opportunities, and promotes technological advancements through embodiment of new techniques. Investment spending is considered a volatile, component of aggregate demand because it depends on multiple factors. That is why it causes much fluctuations of the GDP. Investment has been hard hit by internal and external factors during the last few years and is considered as a key concern. Total investment has decreased from 18.79 percent of GDP in 2006-07 to 14.22 percent of GDP in 2012-13. Fixed investment has declined to 12.6 percent of GDP in 2012-13 from 17.61 percent of GDP in 2007-08. Private investment recorded a contraction of 8.7 percent in 2012-13 compared to 12.8 percent of GDP in 2007-08. Public investment as a percent of GDP also decreased to 3.9 percent in 2012-13 against the 4.8 percent in 2007-08. Although the investment climate remained challenging in view of unstable security situation on account of campaign against extremism, yet the resolve of the government is to address this issue and create an enabling environment to revive the confidence of the investors.

Contribution of national savings to domestic investment is indirectly the mirror image of foreign savings required to meet the investment demand. The requirement of foreign savings needed to finance the saving investment gap, reflects the current account deficit in the balance of payments. National savings are 13.5 percent of GDP in 2012-13 compared to 15.2 percent in 2005-06. Domestic savings have also decreased from 13.4 percent of GDP in 2005-06 to 8.7 percent of GDP in 2012-13. Net foreign resource inflows are financing the saving investment gap. Theoretically, there are two ways of improving the savings investment gap. One is through rising savings and the other is through declining investment. Pakistan required gearing up both savings and investment to augment the employment generating ability of the economy as well as raise resource availability for investment.

Public sector investment is vital for catalyzing economic development. It generates spillover effects for private sector investment because private sector development is facilitated through public sector development spending particularly on infrastructure. However, reduction of development expenditures limits private sector development. Public sector investment decreased from 4.8 percent of GDP in 2007-08 to just 3.9 percent in 2012-13. Table 1.6

presents Saving and Investment as percentage of GDP.

Table 1.6: Structure of Savings and Investment (As Percent of GDP)

Description	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 P	2012-13(P)
Total Investment	**19.33**	**18.79**	**19.21**	**17.55**	**15.80**	**14.11**	**14.92**	**14.22**
Changes in Stock	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Gross Fixed Investment	**17.73**	**17.19**	**17.61**	**15.9**	**14.20**	**12.51**	**13.32**	**12.6**
-Public Investment	4.2	4.6	4.8	4.3	3.7	3.2	3.7	3.9
-Private Investment	13.5	12.6	12.8	11.7	10.5	9.3	9.6	8.7
Foreign Savings	-4.11	-4.83	-8.16	-5.51	-2.22	0.10	-2.07	-0.72
National Savings	**15.2**	**14.0**	**11.0**	**12.0**	**13.6**	**14.2**	**12.8**	**13.5**
Domestic Savings	13.4	12.3	9.1	9.4	9.8	9.7	7.7	8.7

Source: EA Wing Calculations
P: Provisional

Foreign Direct Investment

Foreign direct investment (FDI) has emerged as a major source of private external inflows for developing countries. During more than last two decades most of the countries have liberalized their FDI regimes and pursued investment-friendly economic policies to attract investment. Countries have tried to address the issue of making domestic policies to maximize the benefits of foreign presence in the domestic economy. FDI has triggered technology spillovers, assisted human capital formation, contributed to international trade integration, helped in creating a more competitive business environment and promoted enterprises development. These developments contributed positively to higher economic growth, which is the most effective tool for alleviating poverty.

Pakistan like many other developing countries, has initiated wide ranging structural reforms in various sectors of the economy to restore macroeconomic stability and improve enabling environment to attract FDI. Pakistan during last few years could not attract FDI as per potential of the country due to number of reasons as explained above, now the situation has improved, there is stability in the system, new government has a comprehensive plan to create investment friendly environment and to attract foreign investors in the country. As is evident that post 2013 election, the capital market crossed 21,000 plus points emitting positive signals for restoring the investor’s confidence.

Pakistan has a very fruitful market for foreign investors having its very large consumer base of more than 180 million people. People need food, energy and other amenities to live and thrive. There is a great potential in the power and infrastructure sector and in natural resources. There seems to be huge scope for investment in hydel and coal based power projects, alternative energy like wind power, and natural gas transmission from foreign lands. The country also needs infrastructure, world class education systems, exploration of its natural resources and mechanization of industries. Foreign investors can exploit all such opportunities.

Foreign Direct Investment (FDI) in Pakistan stood at \$ 853.5 million during July-April 2012-13 as against \$ 658.2 million last year, posting an increase of 29.7 percent. Oil & Gas Exploration remained the major sector for foreign investors.

Pakistan will undoubtedly attract foreign direct investment with the resolution of the energy shortages and improvement in the law and order situation. The Board of Investment (BOI) under the Prime Minister’s Secretariat has approved new investment policy recently to provide more investment friendly environment to investors. In particular, efforts are also going on to encourage the setting up of fruit processing industries and more export processing zones in the country, so that sustained high economic growth through exports may be achieved and series of investment opportunities may be generated.

Workers Remittances

Workers remittances from overseas have been a major source of foreign exchange earnings during the last few years. These remittances are providing significant support to the balance of payments on one hand and also helping in stimulating the domestic economy and to alleviate poverty in the country. Inflows of remittances are also improving the standard of living of recipient household and increase domestic demand and indirectly play a role to reduce unemployment. It also supports to maintain the foreign exchange reserve and debt payments. The flow of remittances is free of cost, documented, secure and efficient. The SBP resolve is to further bring additional remittances through its

PRI scheme through continuous improvement in payment system, infrastructure, fact finding, visits and market research, tapping Pakistani Diaspora as well as strengthening PRI core team. The new elected government is also aiming to explore more markets to export its manpower as well as incentives for the remittances to further enhance its growth.

Bilateral arrangements of commercial banks with foreign entities under Pakistan Remittance Initiatives (PRI) have facilitated the flows of remittances from informal to formal channels. Furthermore, initiatives under the PRI such as introduced Xpress money, Inter bank Fund Transfer (IBFT) facility have also helped to improve the remittance flow to Pakistan. Increase in remittances is mainly the result of the higher demand of Pakistani workers in rest of the world. An overview of country wise remittances is presented in table 1.7.

Table-1.7: Country Wise Workers' Remittances US$ Million

Country	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 July-April*
USA	1242.49	1459.64	1762.03	1735.87	1771.19	2068.67	2334.47	1819.85
U.K.	438.65	430.04	458.87	605.59	876.38	1199.67	1521.10	1611.11
Saudi Arabia	750.44	1023.56	1251.32	1559.56	1917.66	2670.07	3687.00	3371.59
U.A.E.	716.30	866.49	1090.30	1688.59	2038.52	2597.74	2848.86	2312.01
Other GCC Countries	816.87	757.33	983.39	1202.65	1237.86	1908.62	2382.63	1331.67
EU Countries	761.98	149.00	176.64	247.66	252.21	314.92	338.18	297.69
Total	4600.12	5493.65	6451.24	7811.43	8905.90	11200.97	13186.56	11569.82

Source: SBP
* : Provisional

Workers' Remittances totaled $ 11569.82 million in July-April of 2012-13, as against $ 10876.99 million in the comparable period of last year, which indicate an increase of 6.37 percent over the period. Monthly data on remittances suggests that the monthly average for the period of July-April 2012-13 stood at $ 1,156.98 million compared to $ 1087.70 million during the corresponding period last year. Remittances from Saudi Arabia recorded massive growth of 12.84 percent and from U.K. it is 27.49 percent during the period under review.

Conclusion and the Way forward

Economy of Pakistan has been confronted with number of challenges either in the form of floods/ rains, paying heavy price against terrorism activities yet a slow and sustained growth is witnessed over the period after the global financial crises. Presently the problems affecting the economy include energy shortages, poor law and order situation, and a host of other structural impediments that have held back investment and growth in the country. Measures to stimulate growth will not yield full potential unless the structural weaknesses responsible for the decline in the investment are addressed.

Pakistan's middle class has been expanding and trying to play a significant role in socio-economic development of the country. A vibrant middle class not only creates demand of goods and services but also provide savings to fund productive investments and also breeding the professional and skilled labour force. Such human capital is essential for growth in the long run, which can provide a strong impetus to economic growth. There is rising trend of youth entrepreneurship in Pakistan. These young entrepreneurs have great potential to cause a paradigm shift in the economy of Pakistan. Opening up of trade relations with India is another major initiative that can boost economic growth by providing greater market access as well as easy and cheaper availability of raw materials for domestic producers.

Reinitiating the privatization process will attract foreign investment in Pakistan. Foreign investment may also be attracted from the Middle East in agriculture and livestock sectors. Savings are the mover of growth. There is also need to expand the network of National Savings Schemes, microfinance institutions, banks and postal savings to far flung areas of the country to enhance household savings.

Investment may be enhanced by identifying the number of projects, which are technically feasible and financially/ economically viable and different donors may be approached to fund these projects. This arrangement may stimulate private investment and bridge saving investment gap in short to medium term. Public and foreign investment may be made supportive to private investment by proper strategic planning. A future vision and strategy need to be framed regarding public sector development program and foreign investment, so that infrastructure and social sector may grow consistently on sustainable basis, which will enhance economic activity in the long run to supplement saving and investment.

However, several policy areas are important to make some considerable reforms like; law and order situation, good governance, improvement of port services, privatization, modernization of business law, Improving the country's image abroad, economic and commercial diplomacy, confidence building measures with neighbors, development of Infrastructure and human resources and to ensure transfer of technology. Auction of 3G spectrum technology licensing may be taken up on fast track basis. Chinese FDI commitment to invest $ 750 million to improve infrastructure on Gawadar port need to be materialized quickly. This will give a boost to the economic activities in the region and will create thousands of new jobs in the country and lead to make Gawadar a regional hub of economic and trade activities. Economic Zones needs to be established with complete package of industrial facilitation. Role of government will be as a facilitator not an entrepreneur which will encourage multi-national companies to invest in Pakistan. A comprehensive Plan for infrastructure development needs to be launched along with modern teaching & training Institutions, so that investment friendly climate may be encouraged, which will certainly attract FDI. Better arrangements need to be introduced by the Board of Investment and Ministry of Commerce to develop the global chain system in the country, which will minimize cost of doing business and attract investors.