

Overview of Pakistan's Economy and Business /Investment Opportunities for Italian Entrepreneurs/Companies

Country's Snapshot

Pakistan symbolizes “the land of pure” and has been the center of the great Indus valley civilization dating back at least 5,000 years. Excavations of historical sites at Taxila, Harappa, and Mohenjo-Daro dating back to 3,000 BC speak volumes about the country's rich heritage. Few of the important attributes of the country are as under:

Official Name	Islamic Republic of Pakistan
Capital City	Islamabad
Form of State	Federal Parliamentary Democracy
Main Cities	Karachi,Lahore,Islamabad,Peshawar,Quetta,Rawalpindi,Hyderabad, Faisalabad, Multan & Sialkot
Population	188 Million (estimated)
Religion	Islam 95 % ,others (includes Christians and Hindus) 5 %
Adult Literacy Rate	54 %
Climate	Subtropical ; cold in highlands
Currency	Pak Rupee (PKR)
Exchange Rate	As at 30 September 2014,PKR 102.1 : USD 1
Fiscal Year	01 July-30 June
Central Bank	State Bank of Pakistan
Major Industries	Textiles, Cement ,Fertilizer,Steel,Sugar,Electric Goods, Ship-building ,Mining, IT industry
Major Exports	Cotton ,Textile and Textile Articles, Leather & Its articles ,Rice, Sports Goods and Accessories, ,Carpets, Footwear, Handicrafts, Fish and other Sea food items, Food and Fruits, Cosmetic and Beauty Instruments, Marble ,Gem & Jewelry
Major Imports	Industrial Equipment and Machinery, Chemical, Steel, Iron ore, Petroleum Products, Edible Oil, Pulses, Tea.
Major Crops	Cotton,Wheat,Rice,Maize,Sugarcane
Natural Resources	Land ,Natural Gas Reserves,Petroleum ,Coal, Iron Ore, Copper, Salt, limestone Chromite, marble, bauxite, gold.

Sources: - www.pakistan.gov.pk, [Economic Survey 2013-14](#)

Economic Overview

In South Asia, Pakistan with an estimated population of **188.00** Million and a GDP of **\$ 245.00 Billion** in year 2013-14 is an important economic player. Despite the ongoing recession in most of the economies of the world, Pakistan succeeded in attaining **4.14 %** growth in the outgoing fiscal year 2013-14 against the growth of **3.7 %** in the preceding year. Most importantly, the growth has remained broad based with the contribution of all important economic sectors.

Agriculture Sector grew by 2.12 %. The industrial sector expanded by 5.84% in FY 2013-14 against the growth of 1.37 % in the earlier year. The services sector which the biggest sector in term of its contribution in the overall GDP grew at 4.29 % in the year 2013-14.

Sector's Outlook

Agriculture

The sector accounts for 21 % of country's GDP & absorbs 43.7 % of the labour force. The agriculture has four subsectors including: crops, livestock, fisheries and forestry. Important crops account for 25.24 % of agricultural value addition. The important crops include major crops like wheat, maize, rice, sugarcane and cotton etc. Within the Agriculture Sector, Livestock is the most significant component of the agriculture sector as it contributes to 55.9 % of the agriculture value edition. This sector achieved a growth rate of 2.88 % in FY2013-14.

Pakistan is one of the leading producer and consumer of cotton in the world market. Owing to its strong agricultural base, globally important businesses and designers consider Pakistan as a major buying source for raw cotton, cotton yarn, cotton fabric, textile and textile articles including denim, home textiles, cotton trousers, jackets, polo shirts, towels etc. The country is also famous for its rice and fruits specially Mangoes.

Similarly, for leather and its articles, the country is an important supplier of these articles in the world market at competitive prices.

Services

The share of the services sector in the country's GDP has reached to 58.1 percent in 2013-14. Services sector contains six sub-sectors including: 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 witnessed a growth of 4.3 5 during the year 2013-14.

On the expenditure side, the three main drivers of economic growth are consumption, investment and export. Pakistan like other developing countries is a consumption oriented society, having high marginal propensity to consume. Total consumption has reached 92.49% of the GDP in the outgoing FY mostly led by private consumption. With such a large consumer base and persistent increase in demand, the country is lucrative market for various products and services.

Industry

Industrial sector contributes 20.8% in the GDP of the country. It is also a major source of revenues of the government and an important sector for provision of job opportunities for the labor force. Pakistan has the 9th largest labour force in the world. According to Labour Force Survey 2010-11, the total labour force in the country was 57.24 million. The sector has registered a remarkable growth of 5.8% in the last FY as compared to 1.4% in FY 2012-13. Industrial Sector has four sectors including Mining & Quarrying, Manufacturing, Electricity generation and distribution, Gas distribution and Construction.

Important Economic, Trade & Investment Highlights/Indicators of Pakistan

With a total GDP of US \$ 245 Billion and an GDP growth rate in excess of 4 % in the jus concluded financial year 2013-14, Pakistan is the 44th largest economy in the world. However, according to Jim O'Neil, famous British economist who coined the term BRIC-Brazil, Russia, India and China in 2001, Pakistan can become the 18th largest economy of the world by 2050, if it achieves its real growth potential in the years to come. Some of the important economic indicators, trade and investment attributes of the country offering immense business and trade opportunities for foreign entrepreneurs are as under:

- In 2014, Pakistan's euro bond issue was oversubscribed by 4 times in the international Capital Markets as against the initially sought estimates of \$500.00 million, an overwhelming interest from the global institutions led to the final issue size of \$2.00 billion.
 - International auction of 3G and 4G licenses in the IT sector fetched \$1.1 billion
 - Pakistan Stock Market has outperformed during 2013-14 among the Global Stock Markets and remained at top of the list in percent gain (37.6 percent) surpassing China, India, Tokyo, Hong Kong, UK and USA markets. Karachi Stock Exchange (KCCI) index improved by 43.74% in May 2014 from the level in May 2013 and was labelled as the top performing stock exchange of the region.
- All universally acclaimed elements of economic growth such as increasing urbanization, favourable demographics and growing middle class are combined in Pakistan. The country lies at the meeting point of South, Central and West Asia. Major multilateral institutions like IMF, World Bank, Asian development bank have shown their confidence in the economic reforms and measures by the Government.
 - Given its strategic location as a gate way to central Asian and Gulf States, the country provides access to some major markets of the world. In order to capitalize its geo-strategic advantage, the country has adopted a **liberal and investor friendly trade and investment regime** which includes proactive facilitation, equal treatment of both local and foreign investors, concessionary tariff structure and no restriction on repatriation of profits.
 - Pakistan is the 2nd biggest producer of buffalo milk in the world. Similarly, the country is the 4th biggest producer of cotton; 5th biggest producer of Mangoes and 8th largest producer of wheat in the world. To fully harness its agro based potential, for value addition and to improve the existing level of sophistication in the sector, Pakistan and the United States have agreed to enhance the scope of scientific research in the agricultural sector to allow it to benefit from modern technology. Similarly, the country is also seeking assistance and co-operation from developed countries like UK, Germany and Italy for improving the existing level of use of technology in the sector.
 - Owing to the above mentioned advantages, huge investment opportunities exist for Italian companies in food processing and cold chain management.
 - Textile industry is the mainstay of Pakistan's exports. The country has vast range of international standard textile products. Several leading international brands have established their production houses in Pakistan. Italian companies could explore this sector for joint ventures. The abundance of raw material in the shape of better cotton yields coupled with cheap and skilled labour provide an additional incentive for any investor.
 - European Union (EU) from January 01, 2014 under GSP+ regime of WTO has allowed duty-free imports from Pakistan to EU of almost 6700 hundred trading lines/articles mostly in cotton, textile and leather sectors. It will ensure greater integration of Pakistan's economy in the world trading system, make the local industries more competitive and help achieve the objectives of inclusive development.
 - To maximize the contribution of Foreign Direct Investment (FDI) in the country, Investment Policy 2013 envisages special programs to promote the linkages between domestically and foreign owned private enterprises such as local supplier, subcontractor or joint venture programs. These strategies have resulted in an inflow of Foreign Direct Investment of US \$ 23 billion in last few years in different sectors.
 - Present government has launched comprehensive plan to create investment friendly environment and to attract foreign investors in the country. As is evident, the capital market has reached to new height and is emitting positive signals for restoring the investor's confidence. Resultantly, Foreign Direct Investment of \$1647.00 million has been made in FY 2013-14. The major inflow of FDI is from US, Hong Kong, UK, Switzerland and UAE. Oil & gas exploration,

financial business, power, communications and Chemicals remained major sectors for foreign investors.

- Unique blend of these advantages and a friendly investment policy offers ideal opportunities for investment in Pakistan where a number of multinational corporations are already earning record profits. Further, our youthful population ensures abundant educated and skilled workforce.
- There is a keen interest of several major international companies for investing in Pakistan. Major sectors where opportunities exist include energy, infrastructure, housing, agriculture and textile. More than 800 multinationals operating in different sectors of the economy i.e. energy, IT, oil & gas exploration, housing, construction and transport, retail, automobile, dairy testifies the fact that Pakistan remains a profitable and attractive business destination for foreign investors. We also have a strong Italian presence in Pakistan as major Italian companies like ENI, Fiat ,Piaggio, Landi Renzo, Chiesi Group, ,Finmeccanica ,Italtec energy together with growing number of SMEs are successfully operating in Pakistan. Other major companies like M/s Astaldi & M/s Salini Impregilo are keenly interested in investing in major energy generation and infrastructure projects.
- Pakistan has been ranked better than its neighbouring countries in terms of business indicators like the ease-of-doing-business, business start –ups and investment protection, making it a lucrative destination for business and investment. In a latest survey by the Overseas Investors Chamber, the business confidence has improved 36 points from 34% negative in 2012 to 2% positive in august 2013.
- The Government in Pakistan is acting on a war-footing to overcome the energy crisis that has held back the economy from performing at its full potential. Diversification of the energy sector in thermal, coal, wind and solar areas; increase in power generation; use of modern technologies in power distribution; controlling line losses and energy conservation are important pillars of our current energy policy. This throws up excellent opportunities for foreign investors in the energy sector.
- Another sector that could be of great interest to Italian businesses is infrastructure. In the coming years, we intend to construct motorways, airports and shopping malls. Provision of low-cost housing is also one of the important priorities of the present government. The demand for affordable housing is increasing with the growing population. The government plans to build 500,000 new housing units across the country over the next five years. Pakistan also needs modern urban transportation solutions and waste management projects.
- In addition to a planned network of motorways which will link up Pakistani cities, one of the most spectacular economic projects is the creation of an Economic /Trade Corridor that will link the Chinese city of Kashgar to the port city of Karachi through a high quality modern expressway. The economic and investment opportunities created by this mega project would be countless.

Pakistan-Italy –Partners in Trade and Investment

Italy is among the top ten trading partners of Pakistan with bilateral trade of approximately \$ 1.2 billion annually. In EU, it is the third largest trading partner of Pakistan after UK and Germany. In **2013-14** (July-June), Pakistan's total exports to Italy were to the extent of **\$671.435 million** .Presently, Pakistan's exports to Italy are in the traditional major exporting commodities in Textile & textile articles, surgical instruments, sports goods and accessories, leather/footwear and agro based products like rice. However, in the last few years, the country has also been exporting items to Italy in gem & jewelry, automotive parts, marble, cosmetic/beauty instruments, carpets etc. To broaden the nature and scale of range of exportable items, dedicated market diversification efforts are being undertaken in close collaboration with relevant trade bodies and institutions in the country.

In terms of imports from Italy, Pakistan imported goods to the value of \$354.822 Million in 2013-14 (July-June). Pakistan's main imports from Italy include machineries and transport equipment (machinery used in textile, agriculture and agro based industries, power-generating machineries, metalworking machineries, electrical machineries, precision apparatus, etc.), chemicals and related products (pharmaceutical products

and plastics), iron & steel articles, rubber ,waste and scrap of copper and aluminum, telecommunication equipment, dental, medical, surgical and veterinary equipment. In addition, Pakistan imports from Italy include a considerable quantity of firearms and weapons.

There is immense potential to increase Pakistani exports to the Italian market as well as Italian investments in Pakistan. Lot of economic complementarities exist between Pakistan and Italy. Italy possess the technical knowledge and expertise (especially for machineries and engineering products) to exploit opportunities in Pakistan. The sectors which show major opportunities for the cooperation between the two countries are: Textile and its various articles, leather, food and food processing, marble and stones, mechanical components, construction and energy.

In conclusion, Italian businesses need to take a closer look at Pakistan which is truly a land of exciting opportunities. As a developing and emerging economy, Pakistan offers much to the Italian companies not only for their buying needs but as a market for:

- Import of high quality goods at highly competitive prices
- Joint Ventures
- Technological transfer
- Export of machinery and equipment in Textile, Agro based Sectors, Marble, Gems and Jewellery.

To harness and tap all these opportunities, the Embassy of Pakistan /Commercial Section in Rome is exploring all such means for further improving and strengthening the existing level of trade and investment between two countries by:

- Encouraging and facilitating participation of both the Pakistani and Italian companies in sector specific trade exhibitions or multi sectoral exhibitions like Expo Pakistan.
- Organising the visits of business /trade delegations between two countries
- Reaching out various Chambers of Commerce in Italy for sharing important trade and economic attributes of Pakistan
- Holding dedicated trade and investment events including conferences and seminars
- Disseminating business related information to businesses in Pakistan and Italy for identifying concrete business opportunities in their area of interest.