Shamshad Akhtar: Pakistan – changing economic and social paradigm

Address by Dr Shamshad Akhtar, Governor of the State Bank of Pakistan, at the International Conference of Young Presidents Organization, Lahore, 4 November 2006.

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Pakistan's economic diversity and potential, its geography and strategic location and rich cultural heritage together offer this country a unique positioning. A confluence of international and domestic political events, however, has often been highly disruptive on a short term basis. Rather than dwell upon history, I will focus on what lends us confidence today that Pakistan is set to reach new economic heights and frontiers.

Pakistan has on all fronts achieved development paradigm shifts – impact of some of it is distinctly visible and more is yet to unfold. On ideological front, leadership has been infusing high degree of moderation, nationhood and tolerance. On economic front, aside from changes in numerology by way of rise in GDP prompted by growth in industry and services sector supported by telecom growth, promising are the significant qualitative changes in macroeconomic management and sector level reforms. Political transformation is steadily emerging as democratic institutions and governance structures are asserting themselves. Pakistan is now in the league of emerging markets moving from low income to middle income state and on social side there is a growing awareness that we need to leverage younger population more effectively through social and human resource investment.

Achievements and gains however cannot be a cause for complacency as Pakistan has a long road ahead to achieve economic, social and political sustainability.

I firmly believe that the process of change and evolution does not end here as Benjamin Disraeli once famously said:

"In a progressive country change is constant; change is inevitable"

Exploiting further Pakistan's economic potential promises to bring the remaining one fourth of population out of poverty and raising living standards as growing economy generate more jobs. Economic prospects depend crucially on Pakistan accelerating the pace and implementation across the board of economic reforms, and positioning itself to face growing global and regional competition. Infrastructure shortages which given domestic resource constraints can only be effectively addressed if foreign investors come forward more aggressively. Pakistan has most liberal economic environment and offers opportunities for exceptionally high returns be it banking, corporate, infrastructure or agriculture sectors.

In my presentation, I propose to talk about what has finally triggered the development paradigm shifts and discuss major initiatives undertaken to bring about the economic, social and governance transformation in Pakistan.

A qualitative change in economic management has induced a degree of macroeconomic stability providing opportunities for real structural changes. This has been recognized by the international raters and is also reflected in growing investor confidence as evident from the growing remittances, foreign investment and in the pricing of international sovereign bond issues. These issues were oversubscribed in the US, Europe and Far East financial markets that now have an appetite to take long term view and risks on Pakistan.

Confidence in the economy was restored as the Government succeeded in reducing substantially its macroeconomic imbalances in FY2003-04 which had reached unsustainable levels in the late 1990s. Fiscal prudence and external debt restructuring together helped Pakistan reduce its debt/GDP which is currently down to 56% of GDP below the target of 60% to be reached in 2013 defined in the Fiscal Responsibility Act, 2005.

Recent demand pressures stemming from a combination of factors (i) the hike in international oil prices, (ii) unanticipated costs of reconstruction of earthquake hit region, (iii) real increase in development spending of physical and social infrastructure that has been for years neglected and (iv) import requirements of fast expanding industry. These factors together strained the external and fiscal deficit that rose to 3.9% and 4% of GDP, respectively in FY06. While these deficits have been financed properly as Government's realization of tax collection and external debt flows were supplemented by significant growth in non debt foreign inflows following the sale of state assets and

FDI. Heightened business activity coupled with aggressive growth in financial industry prompted an unprecedented rise in private credit, stimulated not only by corporate sector but also by growth in agriculture, SME and consumer financing.

The demand pressures from both public and private sector manifested themselves in rising inflationary pressures in the first half of 2005. Recognizing the lingering impact of past few years' easy monetary policy and the emergent demand pressures, the central bank now for almost 18 months has adopted a tight monetary policy stance. Combination of rise in policy discount rate twice, rise in reserve ratios and proactive open market operations together have helped effective liquidity management. Inflationary pressures have come down significantly. Most distinct is the decline in core inflation though food prices have been volatile largely because of distributional disruptions. Maintenance of price stability calls for retaining tight monetary policy. The Government plans to finance its domestic and external current deficit from the non debt flows which have been buoyant given the strong international interest in Pakistan from all parts including oil exporting Gulf countries. Pakistan is keen to pursue its economic agenda while managing the attending challenges and risks. The Government is keenly pursuing foreign investment to finance its requirements and has enhanced vigilance on economy to ensure corrective actions are taken when warranted. Central Bank being independent has played its role to smooth short-term fluctuations and pressure of the aggregate demand therefore stabilizing the output close to its long-run path.

Openness and market orientation

Pakistan has for long nurtured openness and market orientation. Set of mutually reinforcing reforms today have made Pakistan a liberal and deregulated economy. A large segment of public assets have been privatized and incentive regime has been rationalized. Keeping aside ideological or philosophical consideration and Government's fiscal compulsions, industrial, trade and price liberalization has infused high degree of competition which is auguring well for efficient allocation and use of resources. Private sector is allowed in all strategic sectors such as oil, gas, telecommunication and other services sector on a competitive basis which are supported by sound sector policies. Deregulation of civil aviation industry has given air travelers a choice and increased competition resulting in to better customer service and drop in fares. Domestic prices of major crops have been aligned to international prices, while eliminating distorting and untargeted subsidies. Sharp growth in private credit from virtually under Rs20 billion to Rs400 billion in FY06 (that has involved raising SME financing, doubling of agriculture credit, introducing consumer finance loans, etc.) has helped stimulate investments.

Success of market mechanism however does not exclusively depend on price signals but it also requires right blend of host of non-price factors such as physical infrastructures (transport system, communications, telecommunications, etc.); institutional and organizational factors (credit facilities, marketing network and channels, training and educational facilities, information, R&D, technological and innovative facilities, predictable and stable ownership institutions); and, the organizational capacity of the government for administrative and fiscal purposes. Weaknesses in the non-price factors are common in Pakistan as in any emerging market economy and have required Government to play a coordinating role and lay down policies and procedures to address market failures. Notwithstanding these measures, reliance on allocative and creative functions of the market may not be optimal particularly with underdeveloped markets and institutions.

Keeping these caveats in mind, Pakistan's has launched wide ranging reforms which are yielding visible results.

Liberal foreign investment regime

Foreigners and overseas Pakistanis have been allowed 100% equity in all sectors (with no prior approval requirements) and foreign investment is treated at par with domestic investment. Foreign investors can repatriate capital, profits, dividends and fees etc. Special Rupee Convertible Account (SCRA) offers smooth avenue to bring in remittances and portfolio funds for purchase and trading of shares and exit freely from Pakistan. FDI flows have grown from under half a billion in FY 2002 to US$3.5 billion[1] in 2006 and it is not inconceivable that in next year or so we could double these levels.

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1 SBP

FDI Inflows $ million	2001-02	2002-03	2003-04	2004-05	2005-06
Privatization	117	188	199	363	1540.3
Without Privatization	367.7	610.0	750.4	1,161.0	1,980.7
TOTAL	**484.7**	**798.0**	**949.4**	**1,524.0**	**3,521.0**

Source: SBP

Trade liberalization

Moving from import substitution industrial strategy, Pakistan's has adopted a conducive trade policies supported by tariff restructuring, rationalization and reduction; withdrawal of import quotas, import surcharges and the regulatory duties; and foreign exchange liberalization. Maximum tariff rate was reduced from 65% in FY97 to 45% and then again to 25% in FY03. Likewise, the tariff slabs were reduced from 14 to 4 in FY02.[2] Zero tariff slabs were replaced by 5% minimum tariff rate; and average tariff on agriculture inputs has been also reduced. Pakistan's trade openness has steadily improved from 25.8% in FY00 to 34% in FY06.[3] Moreover other indices, such as the Overall Trade Restrictiveness Index (OTRI) and IMF's computed trade restrictiveness index also indicate Pakistan's improved trade openness – both reinforce that Pakistan has most competitive trade regime relative to its South Asian counterparts except Sri Lanka.[4]

Privatization of state owned enterprises (SOEs)

Reversing the 1970s nationalization of industry and banking system (when the Government took over 31 major manufacturing enterprises and all banks), Pakistan since 1990 has structured 161 private transactions which mobilized close to Rs378 billion ($6.2 billion @Rs60.5/dollar). Political commitment, build up of public acceptance, well conceived Privatization Law and guidelines and a fairly well equipped Privatization Commission of Pakistan (PC) (established on January 22, 1991) have together contributed to implementation of privatization program in a fairly transparent manner. Today most manufacturing sector and 80% of banking assets are in private hands. Strategic stakes have been sold in the Karachi Electric Supply Corporation (KESC), the Pakistan Telecommunication Company Limited (PTCL), Kot Adu Power Company, National Refinery, and has sold 5-15% shares in power, petroleum and gas companies etc. In the next phase, close to 26 large transactions[5] including the remaining gas, power and petroleum companies and financial institutions are slated to be sold off.

These structural reforms have precipitated a steady economic transformation across the board.

First, scene in services sector is changing led by hype in financial services, telecommunication, trade and wholesale all of which have been growing at a fast pace. In financial services, growth in banking sector assets and profitability along with privatization together have attracted cumulative FDI flow of $11 billion over past five years. The current wave of bank mergers is anticipated to and GDRs is further going to attract additional $1-1.5 billion including Standard Chartered Bank's merger with the largest mid-size bank i.e. Union Bank. Telecommunication sector alone has attracted $2.6 billion and its expansion (with teledensity rate registering an increase from 3% to more than 10% in couple of years) is triggering telecom revolution with six mobile service provider entering in market in less than couple of years that have today about 40 million cellular phone subscriber. Exports of services sector have grown from negligible levels to over $300 million. This could be an underestimate as a study has pointed out that global IT exports from Pakistan could be $1 billion but a large chunk of export proceeds were retained in escrow accounts by several software houses. The prospects for this sector are bright and industry benefits from a combination of decade plus tax holidays, zero duties on computer inputs, incentives for venture capital, liberalization of wireless local loop and landline sectors etc.

Second, long time back Pakistan achieved self sufficiency in wheat and other strategic products; it is the world's fourth largest producer of cotton which caters for local textile and clothing industry, while

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2 Pakistan: Growth and Export Competitiveness, World Bank, 2006

3 Ministry of Finance: *Economic Survey of Pakistan*, various editions

4 *Trade Liberalization, Growth and Poverty*, (SPDC) Annual Review 2005-06

5 Privatization Commission of Pakistan

feeding China and other regional competitors with cotton yarn and grey cloth. Rice production of superior quality has boosted its exports that have crossed mark of $1 billion. Dedicated policies to nurture non-crop sector to offer nonfarm employment is showing visible results as it now contributes about 53% of agriculture value added relative to 43% in early 1990s. Pakistan is at present fifth largest producer of milk. These developments have helped raise rural incomes where almost 66% of population and agriculture offers employments to 45% of work force. Concrete efforts are underway to enhance complementarity and synergies between the agriculture and industry by exploiting backward and forward linkages.

Third, Pakistan's corporate sector has been quite vibrant and highly profitable which is driving slowly contribution of industry to value added – risen by over 3% between FY99-06. The private sector has been a key driver of this with the support of over 170 MNCs[6] that have had a long standing presence in Pakistan in financial services, chemicals, engineering and industrial products, pharmaceuticals and more recently in energy, shipping, trading and other services. Barring few exception, most industry sub-sectors have been operating at near or full capacity utilization which has triggered an interest in additional capacity enhancement. Consequently, gross fixed capital formation in the manufacturing sector has almost doubled in the past five years and 97% of this is private investment. Shifts in industrial production structure though slow are now emerging. While textile remains the major forte of industry, demand for consumer products catalyzed by rising income and accessibility to consumer finance has helped double the production of automobiles, white goods and electronics and construction demand has boosted cement production. Together, corporate sector profitability in 2005 reached record highs estimated to be ranging around 6%[7] (Net profit margin).

Fourth, Pakistan's engagement in world trade reached $42 billion reflecting the Pakistani companies' integration with the global standards of quality, productivity and efficiency. Prospects for export that have reached $16.5 billion in FY06 (double the level of FY00) is to receive impetus as the Government concludes free trade agreements with United States, China, Malaysia, and Sri Lanka and hub's like planned special economic zones and if joint ventures that would integrate Pakistan in the international production network become a reality. Pakistan has been able to somewhat diversify its exports: Share of textile has fallen from 65 to 59% over last few years and within this sector there has been growth in higher value addition products in particular in home textile where Pakistan has a leading edge. Concurrently, the share of manufactured goods has increased from 62 percent in FY96 and 72 percent in FY01 to 78 percent in FY06. Aggressive regional competition supported by subsidization is, however, hurting textile export prospects even though Pakistan private sector has well positioned itself by enhancing its capacities and upgrading its facilities and technology. To mitigate risks associated with high vulnerability to textile sector both at industry and export level, Pakistan is launching further efforts to encourage greater export diversification.

Broadening and deepening of financial markets

Pakistan banking industry is characterized as the most vibrant, healthy and well regulated. Dismantling all financially repressive policies and regulations, SBP has managed to discourage segmentation of credit markets, reduce high intermediation cost stemming from overstaffing, inefficiencies and accumulation of non performing loans. Financial system has now geared itself to better serve private sector and the populations credit requirements in particular of underprivileged sectors such as micro finance, small and medium enterprises (SMEs) and agriculture. Sequentially, in the financial sector following actions took place:

- First, breakthrough in banking sector occurred when the Government amended SBP Act of 1956 in February 1994 and assigned SBP autonomy and providing powers to SBP Board of Directors for monetary and banking sector policies;
- Second, the Government recapitalized banks (injecting close to Rs 46 billion in some of the public sector banks), laid off close to 35,000 employees in two phases[8] from public sector banks and closed over 2000 unbanked branches and eliminated credit controls;

[6] OICCI

[7] The State Bank of Pakistan: *Banking Sector Review*, 2005

[8] In the first phase (1997) 24,000 employees were laid off and in the second phase around 11,700 employees were relieved

- Third, privatized 4 major public sector banks[9] and supported a program of restructuring and improving asset quality which involved write off of loans (in the range of Rs 54 billion[10]) and establishment of Committee for Revival of Sick Industrial Units (CRSIU), Corporate and Industrial Restructuring Corporation (CIRC) to acquire the NPLs of the public sector banks and creation of a National Accountability Bureau (NAB) Cell at SBP to expeditiously process the cases of willful defaulters. Moreover a special law, the Financial Institutions (Recovery of Finances) Ordinance, 2001 was enacted with a view to facilitate speedy recovery of loans; and
- Fourth, introduced both financial innovation and diversification in banking sector by allowing entry of Islamic and microfinance industry, women's banks and SME bank;
- Fifth, SBP overhauled its prudential regulatory and supervisory framework setting in place international standards and new regulations for specific sectors such as SMEs, agriculture, and microfinance and steadily increased minimum capital requirements of the commercial banks to at least Rs 6 billion by the year 2009. SBP further issued risk management guidelines, e-banking and credit information system and has developed Institutional Risk Assessment Framework (IRAF) to enhance collaboration among the supervisory departments and efficient usage of all possible information available on banks and DFIs.
- Finally, Pakistan launched fundamental reforms of stock market that have ranged from automation of stock market and change in their governance structure to the establishment of Securities Exchange Commission of Pakistan (SECP) to regulate the capital markets, NBFIs, insurance and corporate sectors.

Impact of financial sector reforms has been far reaching. In general while real sector development is a prerequisite for growth of financial sector, in Pakistan context, our experience has shown that to some extent financial sector reforms have catalyzed and induced real sector development. Today, Pakistan has a sizeable banking industry with close to 55 Financial Institutions and asset size of $69 billion, deposit base of $52 billion and advances of $36.7 billion. Financial sector reforms have led to improvement in the following areas:

- Financial depth has increased as Bank Assets to GDP ratio has improved from 49.1% in 1997 to 55.6% in 2005 whereas money supply (M2) to GDP ratio has also improved from 36% in FY 00 to 44% in FY 06. Private credit to GDP which reveals the extent to which the banking sector is efficiently allocating funds to the productive sector of the economy has increased from 18% in FY 2000 to 27.4% in FY 2006. However despite improvements Pakistan lags behind its regional peers.
- Profitability as well as efficiency has increased in the banking sector. ROA has increased from negative 0.2 in CY 2000 to 2.1 by June 2006 whereas ROE has increased from negative 3.5% to 26.5% over the same period. Pakistan's performance in these indicators is amongst the best in its regional peers. Intermediation cost and total expense/total income ratio have come down from 3.43% to 2.96% and from 97.4% to 67.6% respectively over the period CY 2000 to June 2006. However, the gains in institutional efficiency have not really translated into gains in allocative efficiency as spreads have also risen over the same period.
- NPLs to total loans and net NPLs to net loans ratios have improved to 8 percent and 2.1 percent respectively over the period CY 2000 to June 2006.
- All the capital adequacy ratios have shown improvement. Risk Weighted CAR has increased from 9.7% to 11.9%, Tier 1 Capital to Risk Weighted Assets from 8.3% to 8.9% and Capital to Total Assets from 4.5% to 8.1%. Presently 34 out of 40 banks are reporting above 10% capital adequacy.
- Diversification of credit has taken place and previously underserved segments have better access to credit. The credit to agriculture sector has been mostly market driven and has almost doubled from Rs. 73.6 billion during FY04 to Rs. 137.5 billion during FY06. The share of commercial banks in credit to agriculture has risen from 49 percent to 61 percent mainly

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[9] Two of these major banks (MCB and ABL) were privatized in early 1990's while UBL and HBL were privatized

[10] These loans were written off under BPD circular 29

reflecting the strength of agriculture sector fundamentals and the success of the financial sector reforms. Moreover, SBP in its recent restructuring has created a new department for agriculture and rural finance with a strong reorientation towards development finance. Likewise, consumer credit has grown by more than 350% and SME financing by 66%. As on June 30th 2006, out of total credit, the shares of agriculture, SME, consumer credit were 6.2%, 16.4% and 14% respectively.

- Micro finance banking sector which was initiated in 2001, now constitutes of 6 banks (with more than 110 branches) and an asset base of around Rs 9.7 billion as on 30th June 2006. Micro finance banking has a lot of scope in Pakistan as according to some independent estimates, it is potentially a Rs 300 billion size market which can generate revenues of around Rs. 90 billion per annum.
- Likewise Islamic Banking constitutes 2.3% of the total assets of the banking sector with a branch network of more than 100 branches. In future according to estimates it will capture 10% of the total market in Pakistan by 2010. Moreover, growth in Islamic banking is also expected to increase the financial depth as it will bring a lot of people into the deposit net.
- Realizing the importance of these sectors, SBP has further restructured itself in September 2006 and has launched efforts to enhance access to finance in these areas.
- Pakistan's financial sector after going through a process of privatization is already moving towards consolidation and mergers. This process spurred by SBP's requirement of increasing MCR of banks, will weed out weak banks and will make the banking sector well capitalized and more resilient to shocks. Moreover, it will also ensure a smooth transition to Basel 2.
- Due to stock market reforms and improvement in the stock market performance, equity market capitalization to GDP ratio has also increased from merely 16.8% to 31.4% in 2005 and in fact went as high as 44% in April 2006. However, equity markets are yet to fulfill their full potential as an alternative source of funds for the corporate sector. Moreover, bond market in Pakistan is fairly underdeveloped and is merely 5.5% of GDP.

Strengthening of governance structure

Political stability and good governance are essential pre-requisites for improvement in investment climate and sustainable growth. Following improvements have taken place in these areas:

Political governance

Pakistan despite all international and public perceptions, today is a functioning democracy and gradually there is a change in complexion and composition of legislatures with more educated people and women (27% of National Assembly and 17% of Senate) entering into politics as the law mandates for elected representative to have a minimum of bachelor degree to contest in an election. Aside from 100 members Senate and 342 members National Assembly with functioning Committees debating/approving budget, legislation and policies of the Government, Pakistan introduced a path breaking devolution process with the passage of the Local Government Ordinance in 2001 that has empowered locally elected representatives (more than one quarter of which are women councilors) to manage local government affairs and empowered communities to enhance government accountability. To enhance accountability and reduce corruption, the Government established in 1999 a National Accountability Bureau (NAB) which has its head office at Islamabad and five other regional offices in the provinces. Similarly, government has launched a major overhaul of civil/public services through civil services reform committee.

Enhanced role and vigilance of regulators

With private sector leading bulk of economic activity, Pakistan has now a web of regulatory framework for specialized businesses and products backed by strong regulators who operate on the basis of modern and transparent set of economic regulations consistent with international standards. On one hand, Pakistan's regulator for telecommunications (Pakistan Telecommunication Authority (PTA)), Media (Pakistan Electronic Media Regulatory Authority (PEMRA)), Power Sector (National Electric Power Regulatory Authority (NEPRA)), and Oil and Gas Sector (Oil and Gas Regulatory Authority

(OGRA)) etc. were established to unbundle Government's role as producer of strategic goods and services and policy making from that of a body that licenses new entities, setting price mechanism and standard setting, ironing out and providing guidance on the issues arising out of market imperfections and checking compliance and monitoring etc. On the other hand, the financial regulatory authorities both for banking and nonbank financial sector have now been made independent.

Social transformation

Recent high growth trends coupled with enhanced spending on social and poverty programs[11] that rose from 3.8% of GDP in 2001/2002 to 5.05% by 2005/2006 has together begun to pay some dividends as evident from the reversal in poverty incidence trends and social indicators.

- Per capita income has grown from $526 in FY 2000 to $847 in FY 2006.
- The overall poverty has been reduced from 34.46% in 2001 to 23.90% in 2005. The percentage of population living below the poverty line in rural areas has declined from 39.26 percent to 28.10 percent while those in urban areas, has declined from 22.69 percent 14.9 percent.
- Literacy rates of population 10 years and older have increased to 53% as compared to 45% in 2001/02. Both primary and secondary school enrolment have shown improvement in the recent years. However, while elementary education gross enrollment has increased from 41% in 2001/02 to 46% in 2004/05, it remains far below the targets.
- Overall access to sanitation[12] has improved from 37% in 1990 to 59% in 2004 getting close to the sanitation levels achieved by lower middle income countries in 2004.
- Improvements in immunization coverage of children and women from 53% in 2001/02 to 77% in 2004/05. Proportion of pregnant women attending antenatal care increased from 34% in 2001/02 to 50% in 2004/05.

Future paradigm shift

Given its recent track record, Pakistan economy is contemplated to grow at a rate of 7% per annum. This should help raise further its per capita income from US$847 per annum to US$ 1557 by 2015 which in turn will facilitate reduction in poverty. Economic prospects to realize these goals are good as ongoing structural reforms, monitoring of investment and pace of project implementation is being enhanced. Demand is expected to get stronger as the incomes rise further and assuming current population growth (1.8%) trends persist, Pakistan will be a market of 185 million – adding to this the relatively more affluent Gulf population and the Central Asian States population base Pakistan offers a large market. Connectivity and the modernization of existing two Ports and addition of Gawadar port will ease pressure.

We do recognize that tackling the new challenges requires confidence from past achievements but not complacency about the magnitude of the challenges to be faced.

"When it is obvious that the goals cannot be reached, don't adjust the goals, adjust the action steps." -- Confucius

The key challenges going ahead are being addressed to sustain and build on the gains and achievements realized in recent years. Let me conclude by highlighting that most of these challenges require a further shift in development paradigm which will be pursued.

First, Pakistan has to address low productivity and high sector and industry concentration which induce a degree of vulnerability. In agriculture, the Government is striving to develop mega water resources projects and launch further efforts to enhance crop yields key to enhance agriculture productivity of major crops stabilize performance. Concurrently, work is underway to mitigate excessive dependence on crop sector by nurturing non crop sector. There is strong potential in

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[11] Economic Survey of Pakistan 2005-06

[12] *World Development Indicators 2006*, Asian Development Bank

livestock and dairy sector – in case of dairy only 2.5-3.0 percent of the production gets processed. Processing and packaging of these products and development of agro based industry would stimulate export of these products to the neighboring Middle East markets.

Second, while export diversification is occurring, dependence on textile sector is critical to insulate from international fluctuations in textile demand. To achieve diversification, Pakistan has to make inroads into the medium and high-end technology spectrum of products which consists of products such as electronic goods, automobiles, engineering goods etc. and to look for newer markets.

Third, while financial system's depth and breadth has increased, there is continued excessive reliance on banking system; as such there is need for exploiting alternative sources of funds, particularly sources for meeting long term financing needs are yet to be developed. In this regard, Pakistan needs to develop long term bond market particularly corporate bond market and further strengthen its equity markets. Diversification will facilitate availability of funding for infrastructure development and help in structuring required risk mitigation approaches.

Fourth, the country needs to expedite infrastructure development. Estimates indicate that there total infrastructure investment requirements exceed $40 billion over next five years. Mobilizing these investments and it implementation requires special initiatives.

Fifth, the country needs to bring further improvement in governance and competitive investment climate making it more business friendly. Improvement in governance should include among others a strong commitment to rule of law, competent and efficient government sector, less cumbersome regulations and control of corruption. The strengthening of the competitive investment climate would require, further development of markets, efficient nonfinancial factor markets particularly labor markets and availability of skilled labor, improve the infrastructure services, and the existence of strong legal, regulatory and institutional framework.

Sixth, it is critical that Pakistan shares its gains equitably across regions and metropolitan cities to satellite towns and to rural areas where there is need for further strengthening of incentive framework, enhanced availability of credit, and rising non-farm employment opportunities.

Finally, the social transformation needs to occur side by side with the changes in the market place to further strengthen the demand for exiting and new products. People are better informed and have more choices in terms of goods and services.