Economic Development

Definition of Economic Development

Economic development is a process of economic transition involving structural transformation of an economy through industrialization, raising gross national product and per capital income.

According to Lewis,

Economic development means increase in output per head.

According to Micheal Todaro,

Economic development must be conceived of as a multi-dimensional process involving major changes in social structures, people's attitudes, national institutions, acceleration of economic growth and reduction of inequality.

According to Kindleberger,

Economic development means an increase in output of goods and services in the economy.

It is more important than economic growth because economic development is more comprehensive process than economic growth. Economic growth is a quantitative term as it represents quantitative increase in the production of goods, services and factors of production, whereas economic development is a qualitative terms as it indicates continuous increase in real national income and structural changes in the economy of a country.

Definition of Economic Growth

Economic growth means more production of goods and services growth is measured in terms of an increase in real gross national product (GNP or GDP) or an increase in per capital income.

According to Micheal Todaro,

Economic growth is a steady process by which the productive capacity of an economy increases overtime to bring rising levels of national output and income.

Objectives

Objectives of Economic Development

1. Increase of supply of food, clothing, health and education facilities.
2. Increase in standard of living of the people.
3. Increase in leisure, political freedom and equal opportunities of life.
4. Increase in capital formation that is new buildings and industries.

Measurement

Measurement of Economic Development

Previously four methods including, national income method, per capital income method, welfare method and social indicators method were used for the measurement of economic development of a country but non of them provided an acceptable answer.

According to Prof. Todaro,

The Human Development Index method, which is prepared by United Nations Development Program is the best method, which should be adopted by the nations and organizations.

This method includes the opportunities for education, health, income, employment, environment and economic freedom.

Measurement of Economic Growth

1. Increase in the real gross national product.
2. Increase in the real per capital income.
3. Increase in the general welfare of the masses.
4. Increase in social, economic and human development.

Factors

Factors Needed For Economic Growth

Ability of an economy to produce more goods and services depends on the following factors:
1. An increase in stock and quality of its capital goods.
2. An increase in quantity and quality of its labor force.
3. An increase in quantity and quality of its natural resources.
4. An efficient use of factor inputs so as to maximize their contribution to the expansion of output, through improved productivity.
5. Development and introduction of innovative techniques and new products i.e. technological progressiveness.
6. An increase in level of demand to ensure full utilization of the increased productive capabilities of the economy.

Achievement of a high rate of economic growth is one of the main objectives of macro economic policy. The significance of economic growth lies in its contribution to the general prosperity of the community. Growth is desirable because it enables the community to consume more goods and services. It also contributes to the provision of a greater quantity of social goods and services such as health and education, thereby improving real standard of living of the people. Govt. can stimulate growth process by increasing current spending in the economy through tax cuts by Fiscal policy and by increasing money supply and reducing interest rates by adopting Monetary policy.

Economic Factors

Economic Factors Needed For Economic Development

1. Natural Resources

Natural resources are one of the three main factors of production the other two are labor and capital. Natural resources include area of land, forests, rivers, climate and mines. If a country is rich in better quality of all natural resources, it will develop economically at a fast speed.

2. Capital Formation

It is the process of adding net physical capital stock of an economy. Capital formation creates productive potential for future production. Capital formation has three stages namely

- savings
- financial institutions and capital market for mobilization of savings
- act of investment in machinery and buildings.

3. Specialization

Output is greater as a result of specialization. Specialization enables an economy to use its scarce resources more efficiently, thereby producing larger volume of goods and services. It increases the rate of economic development of a country.

4. Technology

Inventions and innovations reduce manufacturing and distribution costs. Technological progress serves to change cost conditions in the long run; thus technological changes play an important role in the economic development.

5. Transport and Communication

Efficient communication facilities increase the production capacity of all sectors of the economy. It reduces cost of production, increases mobility of goods within and outside the country.

6. Entrepreneurship

If an entrepreneurship is capable, skillful and trained then out put of his organization will be greater. Entrepreneurship results in the introduction of new types of output, new techniques and new sources of supply of inputs for business and industry.

Non-Economic Factors

1. Social Values and Attitudes
It includes culture, religion and life style of a society. Some societies are orthodox and do not like material approach of life. Religion does not allow them to keep themselves busy day in and day out for material prosperity. Most societies believe in festivals and different cultural ceremonies. They do not prefer to save money; hence savings rate reduces too much. In such societies material gains are not appreciated.
2. Political Stability
Strong and stable Governments can prepare five-year development plans, they can enforce monetary and fiscal policies and change social attitudes and institutions, which may be progressive one. The frequent changes in Govt. setup results in the lack of concrete economic policy decisions.
3. Administrative Efficiency
Educated, trained, skillful and hardworking Govt. officers can push development of a country at a very fast speed, whereas untrained administration of a country retards the economic development.
4. Economic Freedom
Private ownership of resources and maximum freedom to deploy these resources in line with profit signals create strong incentives to work hard. If every body is allowed to participate in economic activity, then due to competition the rate of economic development will increase.
5. Right of Private Property
Private ownership of the means of production results in the increase in supply of goods and services. In order to own and accumulate profit and property, people work hard, thus trade and business activity flourishes.

Difference between Economic Development and Growth

Economic Development
Economic development is a qualitative term as it indicates continuous increase in the real national income and structural changes in the economy of a country. It means increase in output of goods and services in an economy. Economic development is more important than economic growth because economic development is wider and more comprehensive process than economic growth. Economic development is a process of economic transition involving structural transformation of an economy through industrialization, raising GNP and per capital income.

Economic Growth
Economic growth is a quantitative term as it represents quantitative increase in production of goods and services in an economy. Economic growth is a steady process by which the productive capacity of an economy increase overtime to bring about rising levels of national output and income. Economic growth is the name of more production. Growth is measured in terms of an increase in real gross national product (GNP/GDP) over time or an increase in per capital income.

Agricultural Development

Importance

Importance of Agriculture
Agriculture is backbone and the largest sector of Pakistan’s economy, which plays a very important role in its development. It provides food i.e. wheat, rice, pulses, vegetables, fruit and other items for growing population of the country. Nearly 22% of total output (GDP) and 44.8% of total employment is generated in agriculture. It contributes substantially to Pakistan’s exports.Agriculture also contributes to growth as a supplier of raw materials to industry as well as market for industrial products.
Performance of agriculture during the year 2017-18 has been weak because its crops sector

particularly major crops could not perform up to the expectations. Growth in the agriculture sector registered a sharp recovery in 2017-18 and grew by 5.0 percent as against the preceding year's growth of 1.6 percent.
Agriculture employs 30% of work force. Country's 67% population lives in villages. It contributes about 25% to GDP. It provides raw material such as cotton, sugarcane, tobacco, cottonseed, edible oil seeds, citrus fruits, leather, wool, wood and other items for various industries. Major crops accounting for 35.2% of value added in agriculture, registered a decline of 3% as production of two of the four major crops, namely cotton and sugarcane has been significantly less for a variety of reasons including excessive rains at the time of sowing, high temperature at flowering stage, late harvesting of wheat crop, strong base effect (cotton) and incidence of frost, damaging sugarcane crop in the month of January 2017. Pakistan's agriculture has been suffering, off and on, from severe shortage of irrigation water in recent years.

Main Features

Main Features of Agriculture

1. Main source of food supply.
2. Provides employment opportunities.
3. Major source of national income.
4. Provides raw material for industries.
5. Good market for agricultural machinery and equipment.
6. Market for fertilizers, pesticides and insecticides.
7. Main sour of foreign exchange earnings.
8. Expands industrial goods market.

Major Agricultural Crops

Major Agricultural Crops

There are two principal crop seasons in Pakistan, namely Kharif, sowing season begins in April-June and harvesting during October-December and Rabi, which begins in October-December and ends in April-May. Rice, sugarcane, cotton, maize, bajra and jowar are Kharif crops, whereas, wheat, gram, tobacco, rapeseed, barley and mustard are Rabi crops. Major crops wheat, rice, cotton and sugarcane account for 90.1 percent of the value added in the major crops.

<u>1. Cotton</u>

Cotton is not only an export-earning crop but also provides raw material to the local textile industries. Pakistan is one of the largest cotton producing and consuming countries in the world. Under the WTO post quota scenario, the country appears to have the potential of becoming a leading force in the worldwide cotton and textile market place. There is also growing realization in the country that future gains in value added from cotton are only possible through qualitative improvement in raw cotton. Cotton accounts for 8.6 percent of the value added in agriculture and about 1.9 percent in GDP.
Factors responsible for the decline in cotton production include:

- Excessive rain at the time of sowing.
- High temperature at flowering stage.
- Late wheat harvesting resulting in decline of area under the crop.
- Pest attack in some cottons growing areas of Punjab and Sindh.

<u>2. Rice</u>

Rice is an important food cash crop. It is also one of the main export items of country. It accounts for 5.7 percent of the total value added in agriculture and 1.2 percent to GDP. Area and production target of rice for the year 2017-18 were set at 2575 thousand hectares, 0.2 percent higher than the target and 4% higher than last year. The size of the crop estimated at 5438 thousand tons, 2.0 percent lower than the last year and 4.5 percent lower than the original target.

3. Sugarcane

Sugarcane crop serves as a major raw material for production of white sugar and gur. Sugarcane crop is highly water-intensive and an important crop. Sugar production in the country mostly depends on this crop, though a small quantity of sugar is also produced from sugar beet. Its share in value added of agriculture and GDP are 3.5 percent and 0.7 percent respectively.

The higher sugarcane production is the result of increase in area, timely rains and judicious application of fertilizer, improvement in cultural practice, better management and attractive prices offered by the millers.

4. Wheat

What is the main staple diet of country's population and largest grain crop of the country. It contributes 14.4 percent to the value added in agriculture and 3.0 percent to GDP. Area and production target of wheat for the year 2017-18 were set at 8459 thousand hectares and 22.5 million tons respectively. Wheat was cultivated on an area of 8494 thousand hectares, showing 1.0 percent increase over last year and 0.4 percent increase over the target. The size of wheat crop is, however provisionally estimated at 23.52 million tons, highest wheat production in the country's history, which is 10.5 percent higher that last year and 4.5 percent higher than the target. Higher production is due to following reasons.

- The certified wheat seed availability was 50,000 tons more than last year to 2,17,000 tons.
- The urea fertilizer availability for Rabi crop was 4.714 tons, which was more than the area requirements of 2.9 million tons for Rabi. Moreover subsidy was extended to phosphatic and potassic fertilizers. The price of 50 kg. bag of these fertilizers were reduced by Rs. 250 and further to Rs. 400 per bag to promote balanced use of fertilizers.
- The water availability for Rabi was 31.2 million acre feet. This was an improvement of 3.7 percent over the last year Rabi water use of 30.1 million acre feet.
- Last year the agricultural credit disbursement to farmers was Rs. 130 billion. This year credit availability has been increased to Rs. 160 billion. The banks were also instructed to focus on small and medium scale growers for credit disbursement.

Minor Agricultural Crops

Minor Agricultural Crops

1. Oilseeds

The major oilseed crops include cottonseed, rapeseed/mustard, sunflower and canola etc., the total availability of edible oils in 2017-18 was 2.905 million tons. Local production stood at 0.793 million tons which accounts for 27 percent of total availability while the remaining 73 percent was made available through imports. During 2017-18 local production of edible oil is provisionally estimated at 0.855 million tons. During this period, 2.201 million tons edible oil was imported and 0.349 million tons edible oil was recovered from imported oilseeds. The total availability of edible oil from all sources amounted to 3.405 million tons during 2017-18.

2. Other Minor Crops

The production of two pulses namely mung and masoor were higher by 21.5 percent and 17.9 percent respectively during 2017-18. However production of mash decreased by 3.6

percent. The main reason for decline in production of mash as compared to last year has been the shortfall of area dedicated to the crop, which declined by 4.6 percent. The production of potato was significantly higher by 67.2 percent and stood at 2622.3 thousand tons while it was 1568 thousand tons last year. However the production of onion decreased by 14.3 percent mainly due to 16.5 percent reduction in corp area. The production of chilies is decreased by 49.6 percent as 32.4 percent area of the crop decreased due to excessive rains in Sindh.

Problems

Problems of Agriculture

1. Old Methods of Cultivation

Primitive methods of cultivation i.e., use of wooden Hul, Phaora, Sohaga and Bail (Oxen) cannot increase output. It is therefore the need of the day that our farmers should use tractors, threshers, bulldozers and tube-wells.

2. Shortage of Finance

Our farmer is poor. In order to meet his demand he borrows money from relatives, friends and money lenders at a very high interest rate. Due to shortage of finance he cannot adopt new methods of cultivation.

3. Lack of Irrigation Facilities

Development and progress of agriculture is based on regular supply of sufficient quantity of water. Rains in Pakistan are uncertain and unpredictable, whereas irrigation system is unsatisfactory. Inadequate water supply through irrigation system, i.e., from wells, ponds and canals are causing low agriculture productivity.

4. Under Utilization of Cultivation Land

The total area of Pakistan is 80 million hectares out of which 22 million hectares of land i.e. 25% land is being cultivated. Due to various reasons a greater potion of land is not used for cultivation purpose, that’s why our agriculture output is low. We should bring a greater portion of land under the use of agriculture.

5. Uneconomic Holdings

It means small area of land, which is uneconomical to cultivate. Due to inheritance system, land is divided and subdivided into small pieces, making it uneconomical to cultivate. Small and scattered holdings produce less output.

6. Concentration of Land Ownership

In Paksitan, Jagirdars and Zamindars who one majority of land area live in big cities and do not take much interest in the development of agriculture. They give their lands to landless people for cultivation on the basis of heavy Lugan and Batai (some agreed proportion of output). Since a greater portion of output goes to the zamindars and very less is left to small and poor peasants, they get frustrated and do not take interest to raise productivity.

7. Inadequate Supply of Inputs

Our farmers uses poor quality seeds. Due to lack of finance and ignorance he do not use fertilizers, insecticides, pesticides, improved high yielding seeds and modern machinery, therefore his output keeps on decreasing.

8. Water Logging and Salinity

With the continued use lands have become waterlogged and saline. Excess and salty water is very harmful for production of agricultural goods. This situation is decreasing area of cultivatable land.

9. Soil Erosion

Winds and floods take away fertility of land, causing the land sandy and barren, thus output decreases drastically.

10. Natural Calamities
Heavy rains, floods, droughts, hailstorms and pest attacks are frequent in our agricultural sector causing heavy damages to the standing crops.
11. Insufficient Infrastructure
Stores, power supply and road facilities are very less, which hampers development of agriculture sector. Produce is stored on open places, which is destroyed due to rain, winds and insects.
12. Absence of Regulated Markets
Markets are far away and there is no transport with the farmers. It is very difficult to carry the products to far-flung markets therefore farmers are forced to sell their produce at a low price to the local commission agents.
13. Lack of Education and Training
Our farmer is uneducated and untrained. He does not know the latest multiple cropping, pest, control equipment, the use of technology and other modern farming practices. All this results decrease in output per hectare.
14. Improper Agriculture Research
Research facilities in agricultural sector result in the development of better quality seeds, modern storage facilities, economical use of water, cheap fertilizers, effective low cost insecticides and locally produced cheap machinery. Due to shortage of funds proper research is not being carried out in this field.
15. Lack of Alternative Occupations
In case of failure of crop due to some reason, our farmers become distressed. They live from hand to mouth and their source of income dries down. There is lack of agro-based industries such as dairy, poultry and livestock farms, which may increase income of farmers during off-season.
Measures

Measures for Improving Agricultural Marketing
1. Department of Agricultural Marketing
Government has established Agricultural Marketing Department in order to improve marketing system of agricultural crops. Department surveys the agricultural marketing and prepares its recommendations for provincial departmental. It also develops agricultural cooperative marketing.
2. Construction of Farm to Market Roads
Government is constructing roads and bridges to link farms with markets in order to reduce time and cost of transportation. Quick and easy accessibility of markets will increase income of farmers and their economic position will improve.
3. Price Awareness
Govt. through newspapers, radio and television is providing information to farmers about current prices of different crops, fertilizers, insecticides and other inputs, which are prevailing in different markets and cities. Special programs are being broadcast regularly for awareness about modern techniques of cultivation. Modern methods of cultivation are being taught through TV programs.
4. Big Stores and Cold Storages
Stores and cold storages are being constructed in regulated markets so that the farmers output may not be destroyed. These facilities also help in stabilizing prices of the produce. Tax concessions are given to those who construct stores.
5. Regulated Markets and Uniform Weight Measurements
Regulated markets are being set up and uniform weights and measurement system has been

introduced so that the farmers may not be cheated and they may get the proper return of their produce. In regulated markets, Market Committee system has been introduced which controls and solve these problems. Moreover attention is being paid on standards and grade of the produce.

6. Education and Training

Main cause of all evils in agricultural sector is lack of education and training of farmers. Govt. has started providing education/training facilities about modern methods of cultivation and marketing of agricultural output. Staff of regulated markets is being trained in order to manage marketing system in a decent manner.

Industrial Development

Importance

Importance of Industries

Industries play a dominant role in the economic development of a country. Western countries enjoy all comforts and luxuries of life due to higher productivity of goods and services in their countries. This is due to industrialization. Unfortunately there were no industries when Pakistan came into being but now wit the efforts of Govt. and the people there is an improvement in this regard however more is required to be done.

The overall manufacturing sector continued on its strong positive trend during the current fiscal year 2017-18. Overall manufacturing recorded and impressive and broad based growth of 8.45 percent in 2017-18, against last year's growth of 9.9 percent. Large scale manufacturing account for 69.5 percent of overall manufacturing registered an impressive growth of 8.75 percent in the current fiscal year 2017-18 against last year's achievement of 10.68 percent. There has been a slight decline in growth in the manufacturing sector due to multiple reasons like reduced production of cotton crop, sugar shortage, steel and iron problems and the last but not the least global oil prices. All of these reasons contributed to reduced growth in 2017-18 but high levels of liquidity in the banking system, an investment friendly interest rate environment, a stable exchange rate, low inflation, comfortable foreign exchange reserves, stronger domestic demand for consumer durables and high business confidence among other things will again boost the manufacturing sector growth rate up to a reasonable level.

Main Industries

Main Industries of Pakistan

1. Textile Industry

The share of textile industry in the economy along with its contribution to exports, employment, foreign exchange earnings, investment and value added makes it the single largest manufacturing sector. It contributes around around 8.5% to GDP, employs 38% of total manufacturing labor force and contributes between 60-75% to total merchandise exports. Pakistan is one of the largest textile exporters in the world. The variety of products ranges from cotton yarn to knitwear. Garment made-ups and bed wear are most important export products with an export value of about $1.35 billion each. Knitwear, ready-made garments and cotton yarn also have important shares in total exports. Major importers of textile products are USA, European Union, UAE and Saudi Arabia.

2. Automobile Industry

The auto industry growing is fast and may soon begin to achieve economies of scale. The tremendous rise in automobile demand has resulted in increased production, giving a healthy impetus to industrial output and generating over 1,50,000 direct employment opportunities besides contributing tax revenue to the Govt. since 2001-02 the automobile market is growing rapidly by over 40% per annum. Long-term investment friendly policies of Govt. and up-gradation of production facilities considered as pre-requisite by experts.

3. Fertilizer Industry

In order to promote the use of fertilizer. Govt. offered various incentives, which ultimately resulted in excessive demand for fertilizer. The fertilizer use in Pakistan is a growth story in the field of agriculture. Presently they are 10 manufacturing units in operation. Out of these, four units are located in public sector and six are in private sector. The average annual growth of the fertilizer sector is at 6% per annum. Its share in GDP is 0.5%.

4. Paint and Varnish Industry

There are 22 units in organized and 400 units in unorganized sector for the manufacture of paints and varnishes. The per capital consumption of paints in Pakistan is low. The demand for paints and varnishes is rising due to the resurgence of housing and construction sector.

5. Cement Industry

Cement industry has shown significant growth. At the moment there are 27 cement manufacturing units in the country. The boost during the period in the performance of cement industry activity is because of high level of construction activity in country and increased development expenditure of the government.

6. Home Appliance Industry

Production of television, refrigerators, deep freezers and air conditioner has almost doubled in the last three years. The pace of growth in demand for home appliances is the direct result of the banks and leasing companies policy of consumer financing package. Many dealers have initiated their own schemes of easy installments, which is further increasing demand.

Economic Development

Importance of Industries in Economic Development

1. Increase in National Income

Progress of industrial sector of the country results greater production of goods and services. Output of goods and services is known as GDP. Increase in national income increases per capital income of the people. Higher per capital increases general welfare of people and standard of living of masses improves.

2. Increase in Employment Opportunities

Industries create may types of employment opportunities. Disguised unemployment prevailing in agricultural sector is removed as labor moves for jobs to the cities. Increase in employments results increased savings, which is utilized for further investment in industries.

3. Increase in Productive Capacity

Industrialization increases productive potential. Specialization results in mass production of superior quality goods at a cheaper cost. Greater employment opportunities increase income; income increases demand for goods for goods and services and increases in demand increases investment in industries and other sectors of economy. Effective demand through acceleration principle increases investment and a small investment through multiplier effect increases national income many times and in order to meet demand of people productive capacity develops.

4. Development in Agriculture

Agriculture is backbone of the economy of Pakistan whereas agriculture itself depends upon the progress of industries. Industries produce all inputs that are needed by agriculture such as fertilizers, insecticides and machinery etc. Agricultural output such as cotton, sugarcane, edible oils, fruits, tobacco etc becomes input for industries. All these factors increase income of farmers. Thus agriculture and industries are inter-dependent sectors of economy.

5. Increase in Government Revenue

Industries provide revenue to the Govt. through different sources such as tax on the profit of the company, income tax, sales tax, excise duty, import duty, export duty. Thus industries provide a greater proportion of taxes to the Govt.

6. Improvement in Balance of Payments

Exports of industrial goods increases foreign exchange earnings. Likewise processing of raw material reduces expenditure on imports and foreign exchange earnings improve balance of payments of Pakistan.

7. Economic Stability and Political Domination

Arms, ammunitions, communication appliances, vehicles and other defense requirements are produced by domestic industries, which make defense of Pakistan strong. Industrialization provides economic and political stability. It provides name and fame in international community. Hence a political domination is achieved.

Industrial Development

Measures for Industrial Development

1. Industrial Trading Estates

Government has established industrial trading estates where the entire basic infrastructure such as road, communication, water, gas, power, banks, police protection etc., has been provided. Most famous industrial estate of Pakistan is Sindh Industrial Trading Estate.

2. Technical Training Centers

In order to remove shortage of technical labor, Govt. has established Polytechnic Institutes and colleges in various industrial cities.

3. Tax Concession

In order to develop industrial sector, Government has granted tax holidays and concessions to the industries.

4. Research Institutes

For progress and development of industries Government has established many research institutes, which are directly or indirectly assisting industrial sector. The most important research institutes are Pakistan council of Scientific and Industrial Research, Central Testing Laboratories and Pakistan Standard Institute.

5. Protection Policy

In order to protect new and infant industries, Government has adopted the protection policy for new industries i.e., Goods, which are produced by the local industry are not allowed to be imported, so that local industry may grow quickly.

6. Export Processing Authority/Zones

Separate export processing zones have been established where those industries are established which are engaged in production of exportable goods. Entire infrastructure is made available their and all facilities are given to these industries in order to increase export earnings of the country.

7. Export Promotion Bureau

This Government department helps in the exports of locally produced goods by arranging exhibition, seminars and inviting prospective foreign investors. It also arranges exhibitions of Pakistani products in international markets and disseminates different types of information for progress and development of industrial sector.

8. Provision of Industrial Credit

In order to meet loan requirement, both in local and foreign currency, Govt. has established many financial institutions such as Industrial Development Bank of Pakistan, Pakistan Industrial Credit and Investment Corporation., Investment Corporation of Pakistan, National Investment Trust etc.

9. Investment-Friendly Rate of Interest

Government has reduced rate of interest so that the investors may feel happy to borrow and invest in industrial sector. Low rate of interest increases margin of profit thus businessmen establishes more industries in the country.

10. Revival of Sick Industries

Many industries, which had were closed, are now being revived. Their dues of taxes, loans and interest etc have been drastically reduced and they are now being put into operation. This is being done so that the industries may become prosper and export earnings of the country may increase.

11. Privatization Policy

Most of the State owned industries are inefficient and are running in losses, when these will be transferred to private sector, their administration will improve and non-development expenditures decrease to a greater extent, their efficiency will increase and such industries will be converted into profitable ventures.

Small-Scale Industries

Importance of Small-Scale Industries

1. Use of Local Machinery and Local Raw Material

Small industries can be set up easily because no technical and administrative expertise and training is required. Since in it local machinery and local raw material is used therefore no foreign exchange is required.

2. Employment Opportunities

These industries provide greater employment opportunities to local people. The disguised unemployment is reduced and migration of people towards cities for search of jobs is reduced. Since unemployment person can get job in small industries, the rate of dependent persons is reduced.

3. Increase in Standard of Living

These industries provide job opportunities, income of people increases, which result in the increase in standard of living. These also reduced income disparity between the rich and the poor.

4. Increase in Export Earnings

Foreigners heavily demand goods produced by small industries, which results in the increase in foreign exchange earnings of Pakistan. These enterprises increase name and fame of Pakistan in international market.

5. Act as By-Product and Subsidiary Industries

Small industries purchase wasted raw material of large industries to be used in their own production process, thus they increase income of large-scale industries. These industries manufacturing nuts, bolts and spare parts required by large industries at a very low price, hence both of them are benefited with each other.

6. Expansion in Home Market

SMEs produce goods keeping in view needs and requirement of local market therefore home market is expanded. Increased supply of goods increases business activity and national income. With increase in output the prevailing high rate of inflation can be controlled.

7. Diversification in Industrial Products
Goods using different types of material result in diversification of product. Different varieties of goods are produced according to the demand of different customer's purchasing power.
Privatization Policy

Privatization Policy
Privatization is a process by which Govt. owned factories and services are transferred to private sector by their sale. Foreign investors can also purchase these industries and services. In order to sale Govt. enterprise open bids are invited from private sector. In some cases shares of the enterprises are sold through Stock Exchanges. Deregulation means reducing the rules and regulations and to make investment easy for local and foreign investors. Now any foreign national can set up his business anywhere in Pakistan without under going a complicated procedure of government permission. Privatization process varies somewhat depending on the nature of the asset being privatized, on the proportion of shares being offered for privatization and on whether a transfer of management is involved. Privatization Commission prepares the summary justifying the need for privatizing the property and the regulatory framework. Once endorsed by the Board of Privatization Commission, it is submitted to Cabinet for approval.
Advantages of Privatization

Advantages of Privatization
1. Increase in efficiency and Profitability
Most Govt. industries and services are inefficient and running in losses, when these will be transferred to private sector, their administration will improve and non-development expenditures will be reduced, their efficiency will increase and will be converted into profitable ventures.
2. Increase in Foreign Investment and Export Earnings
Privatization will increase foreign investment when foreigners will purchase them. Their production will increase which will more foreign exchange for Pakistan and if these enterprises are set up by foreign loans, these loans will be repaid out of the sale proceeds, which will reduce the burden of foreign loans.
3. Broaden the Base of Share Capital and Stock Market
Sale of enterprises through stock exchanges will broaden the base of share capital hence stock market will develop, because general public will be in position to purchase their shares and investment opportunities for general public will increase.
4. Decrease in Political Pressure
There are always political pressures on Govt. owned industries, banks and other institutions for employment of political workers and loan facilities from banks. When these enterprises will go in the hands of private owners then these illegal pressures will be reduced to a great extent.
5. Use of Latest Technology and Know-How
Private domestic investors and foreign investors will adopt latest technology and know-how for the increase in output and their profits. This will result in the increase in national product, thus national income of the country will grow.
6. Decrease in Deficit Budgeting and Increase in Infrastructure
Govt. enterprises usually run into losses and to keep them going. Govt. provides funds every year. After privation, Govt. need not to resort to deficit financing and the funds provided to these enterprises will be utilized for construction of social infrastructure of the economy.
Disadvantages of Privatization

Disadvantages of Privatization

1. Increase in Tax Evasion
Private sector generally tries to avoid payment of taxes. Thus privatization of enterprises will result in the decrease of tax income.
2. Concentration of Wealth
Privatization of large industrial units and services sector such as banks and insurance companies will increase concentration of wealth in private hands. It means only rich people will reap the fruits of industrialization and the society will be divided between "haves and have-nots".
3. Exploitation by Private Sector
Privatization will result in exploitation by rich people. They may charge more prices for their goods and services. They may terminate workers to reduce cost of production. Thus different types of exploitation may be started and the concept of welfare state for Pakistan will be jeopardized.
4. National Security Endangered
Telecommunication, Civil Aviation (Airlines) and railways if privatized then it would be a security risk for the country.

Natural Resources

Natural Resources

National resources are backbone for the industrial development of a country. These resources play a dominant role in accelerating in the pace of progress and prosperity. Economic development of an economy is not possible without the availability of natural resources. Natural resources are divided into minerals, forests and hydle power/energy.
1. Mining and Quarrying
Pakistan has a widely geological frame work, ranging from pre-Cambrian to the present that includes a number of zones hosting several metallic minerals, industrial minerals, precious and semi-precious stones. Although many effort have been made in developing geological products, institutional, academic and Research and Development infrastructure, much remains to be done to enable this sector to take full advantage of its endowment. As a result of various efforts devoted for the development of mineral sector, resources of several minerals have been discovered over the last many decades, including world class resources of lignite coal deposits at Thar, Sindh, porphyry copper-gold deposits in Chagai, Balochistan, Iron ore deposits at Dilband, Balochistan, Lead-zinc deposits in Duddar, Balochistan, gypsum, rock salt, limestone, dolomite, china clays etc in the Indus Basic, ornamental and construction stones in the various parts of the country and about 30 different gems and precious stone deposits in northern Pakistan.
Mineral industry in Pakistan shows that over the last few decades this sector has been allocated very small amount – 0.45% to 2.46% of the total public sector expenditure since first five year plan reflecting its contribution to Gross National Product (GNP) of just around 0.5%. The mineral resources of a country are valuable means and measures of its economic and industrial growth. These are still more important for Pakistan because of its favorable geological environment and a large number of mineral resources in the country. Considering that substantial scope exists for the development uncertainties, it requires Government support and recognition of mineral sector.
The Govt. is fully committed to making the mineral sector in Pakistan one of the most profitable for the country. During the current fiscal year, mining and quarrying sector has registered a growth rate of 5.7 percent as against 4.58 percent of last year. The increased growth was propelled by strong growths recorded in magnetite-30%, dolomite-26.1%,

Limestone-25.2% and chromites. To make this sector thrive more in the upcoming year the Govt. has already started various initiatives which is evident from the discovery and development of world class copper-gold deposits in Chagai, Balochistan by Australian Firms that would fetch $500 million to $600 million per year during the lives of these mines Development of Thar Coal field, one of the largest good quality lignite deposits in the world on completion, would provide additional source of energy.

2. Mines and Mineral Development Department

This department was created in Sindh in 2001 in pursuance of the National Mineral Policy, 1995. The department has taken all necessary steps for further establishing its field office. The province of Sindh has large quantities of minerals. In all there are 24 minerals which are being mined at present. The province also has large quantities of coal and granite reserves. The granite area which was previously inaccessible has now been connected with Karachi by network of roads and other facilities like Rest House etc. It is also proposed that Granite Park should be established at Nagarparkar. Karunjhar Range of Mountains in Nagarparkar has huge reserves of granite and other rock types of extractable thickness which has the potential to compete the international market.

Mineral Resources

Mineral Resources of Pakistan

1. Natural Gas

Natural gas is used in domestic cooking, thermal power stations and steel furnaces and as a raw material for fertilizer industry and in CNG kits for transport purpose. It is used almost in every industry. It is found in Sui, Attock, Pirkoh and Kandhkot.

2. Petoroleum

Petroleum or Crude, oil is used in transport, power-generating stations, in iron and steel furnace Petroleum is known as black liquid gold. Of the total requirement only 40 percent is produced with the country and the rest is imported from abroad. Crude oil is found at Jhelum, Rawalpindi, Badin, Attock and Mianwali.

3. Coal

Coal is used in thermal power station and in furnaces for making bricks. About 80 percent of cement industry has now switched over to indigenous coal from furnace oil that has saved considerable foreign exchange being spent on the import of furnace oil. Quality of coal is not very good. It is available at Dandot, Makerwal, Harnai, Lakhra (Sindh). The coalfield in the Sindh province has huge coal resources of about 175 billion tones. In view of the anticipated shortfall of electricity and other energy resources during the next 10 years, the maximum utilization of coal would be required in power generation and gasification. To ascertain commercial viability of mining coal from Thar (Sindh), German consultants have completed a mining feasibility on a specific block in Thar Coalfield.

The coalfields in the Sindh province have coal resources estimated at 175 billion tones. Due to high cost of imported energy, government has decided to enhance the share of coal in the over all energy mix from 5 percent to 19 percent by 2030. Over 80 percent of coal was consumed by the brick kiln industry thus reducing the supply available for power generation. Approximately 80 percent of cement industry has also switched over to indigenous coal from furnace oil that has saved considerable foreign exchange being spent on the import of furnace oil. The conversion of cement industry from furnace oil to coal has generated a demand for 2.5 to 3.0 million tons coal per annum.

4. Chromites

Chromite is used in making engineering tools and stainless steel. It is found at Chaghi, Muslim Bagh, Malakand and Zhob.

5. Copper
Copper is used in electrical equipment, power and communication transmission lines. It is found at Sandak, Chaghi.
6. Gypsum
Gypsum is used in the manufacture of cement, fertilizers and Plaster of Paris. It is found at Hazara, Kohat, D.G.Khan and Dandot.
7. Iron Ore
Iron ore is used in making steel and engineering products. Quality of iron ore is not of good standard. It is found at Kalabagh, Chitral, Hazara, Makerwal and Khuzdar.
8. Rock Salt
Rock salt is used for cooking as well as in the manufacture of soda ash. It is also used in textile and tanning industries. It is found at Khewra, Warcha and Kalabagh.
9. Marble and Granite
Marble is used for decoration in construction industry. It is available in great quantities at various places of the country.
10. Lime Stone
Limestone is used in manufacture of cement, bleaching powder and glass and paint industries. It has rich deposits in the country. Lime stone is found at Hyderabad, Potohar and at Khewra Salt range.

Forest Resources

Forest Resources of Pakistan

Forests play a very important role in the economy of a country. There is shortage of forests in Pakistan. Pakistan has 4.01 million hectares covered by forests, which is about 5 percent of the total land area. Eighty-five percent of this is a public forest, which includes 40 percent coniferous and scrub forests on the northern hills and mountains. The balance is made up if irrigated plantations and Riverain forests along major rivers on Indus plains, mangrove forests on the Indus delta and trees planted on farmlands. Though the forest resources are meager, it plays an important role in Pakistan's economy by employing half a million people and fulfills one-third of the nation's energy needs. Forest and Rangelands support about 30 million herds of livestock. Forestry sector plays an important role in soil conservation, regulates flow of water for irrigation and power generation, reduction of sedimentation in water conveyances and reservoirs, employment and maintenance of ecological balance. Total forests area of Punjab, NWFP, Sindh and Balochistan is 0.48, 1.33, 0.84 and 1.36 million hectares respectively. Pakistan being an agricultural country relies on sustained supplies of water and fertile soil. This is only possible when our forests and watersheds in the high hills are intact. Pakistan being a forest deficient country is facing timber and fire wood shortage to the tune of about 29 million cubic meters. There is need to increase the area under tree cover, not only to meet material needs of growing population but also to enhance environmental and ecological services being provided by the forests.

Importance of Forests

Importance of Forests in the National Economy

1. Raw material for paper, sports, silk, furniture and tanning industries.
2. Medical herbs and seeds for pharmaceutical industries.
3. Recreation facilities for tourism and camping.
4. Timber/woof for fire.
5. Reduce floods intensity.
6. Increase fertilizer of land.
7. Provide employment opportunities.

8. Causes rains.
9. Control soil erosion.
10. Fodder for cattle.
11. Provide employment opportunities.
12. Chemicals such as turpentine oil.
13. Leaves of forests provide natural fertilizers.
14. Forests are great source of recreation, natural beauty and attraction.

Energy

Energy

Pakistan's economy has been growing at an average rate of 7.6 percent per annum and the government is making efforts to sustain the momentum going forward. Knowing well that there exists strong relationship between economic growth and energy demand government is making efforts to address the challenges of rising energy demand. These include import of piped natural gas from Iran and Turkmenistan, import of LNG, increase in oil and gas exploration in the country, utilizing 175 billion tones of Thar coal reserves, setting up of new nuclear power plants, exploiting the affordable alternate energy resources and overhauling existing power generation plants to enhance their generation capacity. In addition to increasing supply, there is a need to promote efficient use of energy resources as well. At present Pakistan meets its energy requirement of over 75 percent from domestic resources, around 50.4 percent of its energy need is met by the indigenous gas, 28.4 percent by domestic and imported oil and 12.7 percent by hydro electricity. Coal and nuclear contribution to energy use is limited to 7% and 1% respectively. While the widening of energy supply and demand gap remains a challenge for Pakistan, it also provides viable investment opportunities for both local and international investors.

Main Energy Sources

1. Hydel power.
2. Natural gas.
3. Petroleum.
4. Coal.
5. Atomic Energy.

Importance of Power/Energy

1. No industry can run without power/energy. All machines require energy to operate them.
2. No agricultural machine can function without it. Tube wells, tractors, trolleys, threshers all require energy i.e. electricity, diesel or petrol.
3. No transport and communication service such as trucks, cars, railways or aero plane can operate without energy/petrol/diesel etc.
4. No domestic appliances such as electric bulbs, television, fridge, juicer and blenders can function without the use of energy/electricity.

Causes of Unemployment

Causes of Unemployment

Population of Pakistan is about 154 million whereas the growth rate of population is about 2.6 percent per year. The total labor force is 47.67 million, out of which 44.01 million, is employed and 3.66 million is unemployed. The main cause of unemployment is as under:

1. High Population Growth Rate

Due to rapid increase in population unemployment rate is increasing very fast.

2. Low Rate of Investment

In Pakistan, per capital income is very low, therefore savings are very low, hence investments are less. Due to low investment are employment opportunities are not coming

up.
3. Mechanization of Agriculture
Agriculture is under process of mechanization. Machines are replacing labor and creating unemployment. Migration from villages to cities is also a cause of increase in unemployment, as cities have already reached to the saturated level and could not absorb new job seekers.
4. Sick Industries and Privatization
Industries are facing many problems. Many of them are at the verge of collapse due to lack of availability of imported raw material, short of demand in local market, reduction in their exports and competition with foreign imported goods. Number of sick industries is increasing day by day which is causing unemployment in the country. Moreover due to privatization policy of the government, state owned industries are being sold out to private sector, where labor is being reduced thus causing unemployment in the country.
5. Decrease in Foreign Employment Opportunities
Due to war between Iraq and Kuwait, attack on Afghanistan and Iraq economic crises in Middle East and in other European countries, Pakistani workers have been removed from their jobs thus creating unemployment situation in the country.

Foreign Trade

Foreign Trade of Pakistan

Foreign Trade of Pakistan

Pakistan has recorded laudable export performance during the last several years, with exports growing at an average rate of almost 16 percent per annum over the last four years Given the importance of export in the economic transformation of any nation, the ability to achieve strong export-led growth has become a recurring theme in policy making in Pakistan. The strong export growth in Pakistan benefited a great deal from the rapid improvement in the international trading environment, which in turn was the direct consequence of the most ambitious and successful round of multilateral trade negotiation in Uruguay under aegis of the General Agreement on Tariffs and Trade (GATT). This trade negotiation succeeded to a great extent in bringing down tariff barriers, particularly in the international trading environment.
Pakistan's import growth slowed to a normal level in the current fiscal after surging at an average rate of 29 percent per annum during the last four years. Four years of strong economic growth strengthened domestic demand which triggered a consequential pick up in investment. The rise in investment demand led to a massive surge in imports. Though Pakistan continued to maintain its strong growth momentum. import growth has decelerated to its trend level for a variety of reasons including the pursuance of tight monetary policy during the year. The lower growth in imports is likely to improve trade deficit from 9.5 percent of GDP last to 9 percent this year. However current account deficit is expected to be around 5 percent of GDP as against 4.4 percent last year.

Importance of Foreign Trade

Importance of Foreign Trade of Pakistan

1. Export of Raw Material and Semi Finished Goods
Pakistan's exports consist of raw material and semi-finished goods, which fetch very little price in international market. Most dependence of export is on cotton, cotton textile

products and basmati rice, whereas production of these goods depends upon natural factors. If natural circumstances go against the cultivation of cotton and rice then export earnings reduce drastically.

2. Import of Machinery and Industrial Raw Material

Pakistan's imports consist of machinery, industrial raw material, vehicles, medicines, electronic goods and other value added items. The prices of these items are increasing in international market. Therefore the total import bill is increasing day by day.

3. Import of Agricultural Products

Pakistan is an agricultural country but to our ill fate we import many agricultural food items such as soyabean oil, palm oil, tea, pulses, spices and many times sugar and wheat from other countries thereby increasing our import bill.

4. Increased Use of Petroleum Products

In Pakistan number of motor vehicles and other means of transports are increasing. Similarly due to industrialization, use of machinery is increasing. All these factors are increasing demand of petrol and petroleum products, prices of which are rapidly increasing in the international market, causing increase in the Pakistan's import bill.

5. Import of Services and Other Invisible Expenditures

Most of the export and import trade of Pakistan is carried on by foreign shipping companies, as our shipping industry is not developed and we do not have many cargo ships. Similarly foreign banks and insurance companies render their services in international trade. Thus lot of foreign exchange is spent on such service charges.

6. Limited Trade Relations

Pakistan has very limited trade relations. Most of the trade is being carried out with UK, USA, Japan, Europeans Union and Middle East.

7. International Trade by Private Sector

Private sector is dominating international trade of the country. Businessmen themselves are finding export markets by sending their representatives for trade negotiations and trade.

8. Unfavorable Balance of Payments

Balance of Trade is usually against Pakistan. Pakistan's exports earnings from raw cotton, textile goods, rice, leather and surgical products are very less where as expenses on imports of machinery, industrial raw material, petrol and on electronic goods are greater. Pakistan receives less and pays more, which makes its balance of trade unfavorable.

Balance of invisible is always against Pakistan. It is a statement of Pakistan's use of foreign ships, insurance companies and banks for which Pakistan has to make payments in foreign currency. Pakistani does not have ships, banks and insurance companies abroad, which may perform services and earn foreign exchange. The drain of foreign exchange is too much on this account.

Balance of Payments is always against Pakistan. It is a statement of a country's trade (visible) and financial transactions (invisible) with the rest of the world. Since both the above balances are against Pakistan, therefore final balance of payments is also against it. This is being balanced by borrowings from World Bank, IMF and friendly countries. Unfavorable balance of payment increases the debt liability of Pakistan.

9. Unfavorable Terms of Trade

Terms of Trade are a price index, which shows a country's exported goods prices relative to its imported goods prices. It is prepared by taking an index of prices received for export and an index of prices for imports and then export prices are divided by import prices. An improvement in a country's terms of trade occurs if its export prices rise very slowly whereas import prices rise fast.

Major Exports of Pakistan

Major Exports of Pakistan

1. Raw cotton, Textile products and Cotton yarn.
2. Rice.
3. Leather and leather products.
4. Carpets and rugs, Tents.
5. Synthetic textiles.
6. Surgical instruments.
7. Sports goods.
8. Readymade garments.
9. Vegetable, fruit and fish.
10. Engineering goods.
11. Chemicals and Pharmaceutical products.

Exports of Pakistan

Exports were targeted at $18.6 billion or 12.9 percent higher than last year. Export of food group declined by 3.5 percent. This declined is caused by a 2.6 percent and 14.3 percent decline in exports of rice and fruits. Export of rice declined due to lesser production caused by adverse weather condition which kept the domestic price higher. It was more profitable to sell within the country than to export. Exports of textile manufactures grew by 0.2 percent. Prominent among these are export of knitwear 13.9 percent, readymade garments 6.8 percent, made up articles 8.9 percent, cotton yarn 4.6 percent and towels 2.6 percent. Exports of other textile materials registered a high double digit growth of 17.2 percent. Export of raw cotton, cotton cloth and bed wear on the other hand registered a decline.

Direction of Exports of Pakistan

Although Pakistan trade with a large number of countries its exports are however highly concentrated in few countries including USA, Germany, Japan, UK, Hong Kong, Dubai and Saudi Arabia which account for one-half of its exports. The United States is largest export market for Pakistan, accounting for 28.4 percent of its exports followed by UK and Germany. Japan is fast vanishing as export market for Pakistan as its share in total exports has been on decline for one decade, reaching less than one percent from 5.7 percent a decade ago.

Pakistan needs to diversify its exports not only in terms of commodities but also in terms of markets. Heavy concentration of exports in few commodities and few markets can lead to export instability. Other issues which need to be addressed include low value added and poor quality, obsolete use of machinery and technology, higher wastage of inputs adding to the cost of production, low labor productivity, little spending on research and development, export houses lacking capacity to meet bulk orders, inability to meet requirements of consumers I terms of fashion and design, non-adherence to contracted quality and delivery schedule, lack of marketing techniques etc.

Major Imports of Pakistan

Major Imports of Pakistan

1. Machinery.
2. Petroleum.
3. Chemicals.
4. Vehicles and spare parts.
5. Edible Oil.
6. Wheat.
7. Tea.
8. Fertilizers.

9. Plastic material.
10. Paper Board
11. Iron ore and steel.
12. Pharmaceutical products.

Imports of Pakistan

Pakistan's imports are also highly concentrated in few items namely, machinery, petroleum and petroleum products, chemicals, transport equipment, edible oil, iron and steel, fertilizer and tea. These imports accounted for 73% of total imports during 2017-18. Among these categories machinery, petroleum/petroleum products and chemicals accounted for 53.4% of total imports.

Direction of Imports of Pakistan

Pakistan's imports are highly concentrated in few countries. Over 40 percent of them continue to originate from just seven countries namely, the USA, Japan, Kuwait, Saudi Arabia, Germany, UK and Malaysia. Saudi Arabia is emerging as major supplier to Pakistan followed by the USA and Japan. The shares of USA and Japan, with some fluctuations, exhibited a declining trend because of the shift in the import of machinery/capital goods and raw materials to other sources. On the other hand, the share of Pakistan's imports from Saudi Arabia has been rising due to higher imports of POL products. Malaysia share has shown rising, as well as, falling trends over the years mainly on account of fluctuations in palm oil prices

Improvement in Balance of Payments

Measures for Improvement in Balance of Payments

1. Increase in Exports by Providing Different Incentives

First important step for improving balance of payments of Pakistan is to increase its exports. It is suggested that following steps should be adopted in this regard.

- Decrease in cost of production, for which interest rate for new industries should be reduced.
- Cost of transport particularly railway freight should be minimized.
- Custom duties on the export-oriented industries should be reduced.
- Cost of transport particularly railway freight should be minimized.
- Modern techniques of production should be used.
- Instead of exporting raw material, value added goods should be produced and exported.
- Those industries should be encouraged and set up which use locally produced raw material.
- Labor productivity should be enhanced by imparting education, training and providing different types of facilities of life.
- Goods of different varieties keeping in view the demand and requirement of foreigners should be developed, produced and exported.

2. Decrease in Imports by Setting up Key Industries

Second important requirement for improving balance of payments is to decrease imports. It is suggested that after adopting following steps imports will be decreased.

- Import substitution industries should be set up.
- For production of edible oils, seeds should be grown locally.
- Tea consumption should be discouraged.
- Production of food grains such as wheat should be increased.

- Import of luxurious items should be banned or heavily taxed.
- Basic and key industries should be developed which can produce machinery and spare parts for manufacturing industries.

3. Increase in Invisible Earnings

Thirdly, for improving balance of payments expenses on invisibles are to be decreased and to increase exports. After adopting following steps, invisibles balance can be improved.

- National shipping company should be strengthened for assisting the international trade. Freight charges of this company will become a source of saving of foreign exchange.
- Domestic commercial banks and insurance companies should be strengthened and be given task for facilitating Pakistan's international trade.
- Expenses on our embassies abroad, which involve foreign exchange should be reduced. VIP culture should put to an end and unnecessary tours and medical expenditure of high government officers and politicians in foreign countries hospital should be disallowed.
- Foreign countries visits by the general public should be discouraged in order to save the precious foreign exchange of the country.
- The efficiency of Trade Attaches of Pakistan Embassies should be improved. It is their duty to do their best for developing markets of Pakistani products in the countries they are posted.

4. Search of New Markets

Fourth important requirement for improving the balance of payments is the expansion of trade relations. After adopting the following steps trade relations will be expanded.

- Govt. officials and business community should participate in trade fairs arranged by foreign countries.
- Trade Agreements with different countries should be made.
- Seminars and Trade Exhibition should be arranged within country in which foreign delegates should be invited to participate.
- Booklets, brochures, pamphlets about Pakistani products and economy of Pakistan should be distributed to foreign business community.
- Research for marketing should be conducted.

5. Quality and Packaging of International Standard

Exportable Goods should be of international standard; their packaging should meet the same standard. Good packaging provides safety and security of the product and is not destroyed during handling and shifting process.

6. Revival and Restoration of Sick Industries

Sick industries should be revived. This will increase output of industrial goods, which will result in the decrease of prices. The cheap goods will become a good market for buyers and they will import more from Pakistan, thus the export proceeds of the country will increase.

7. Foreign Joint Ventures

Pakistan's exports can be pushed up after collaboration of foreign investors. The foreign partners have more contacts in foreign markets and in order to increase profitability of industry, foreign partners will market the products in their countries hence Pakistan's exports will increase.

8. Promotion of Labor Intensive Industries

Small and cottage industries are labor-intensive. Products utilizing more cheap labor with have a comparative cost advantage which will help in decrease in cost. Industries such as, leather goods, readymade garments, surgical instruments sports goods should be developed for export purpose.

How Pakistan's Export can be Increased

How Pakistan's Export can be Increased

1. Diversification of Exports.
2. Trade facilitation.
3. Increased market access.
4. Enhancing export competitiveness by reducing cost of doing business.
5. Capacity building on WTO and trade negotiations.
6. Developing export of services.
7. Improving compliance of quality infrastructure.
8. Techno-legal proposals.

1. Focus on Neglected Regions/Countries

Trade policy aimed at focusing on neglected regions/countries. The Ministry of Foreign Affairs in consultation with the Ministry of Commerce has appointed Honorary Counsels General in important cities of the region to focus on trade matters to boost export. In this regard the Board of EMDF has approved the funds for Pakistan's Embassies to hire local marketing executives to be funded from Export Market Development Fund. This aspect already stands implemented.

2. Marketing Efforts in USA and European Union

Another important point of the current trade policy was to boost trade with USA and EU. For this purpose, Market Company for EU and Consultants for USA have been hired and this aspect has also been implemented.

Transport and Communication

Transport and Communications

Transport and Communications

A well functioning transport and communication system is a critical pre-requisite for a country's development. Investment in the infrastructure directly affects economic growth through many changes such as allowing producers to find the best markets for their goods, reducing transportation time and cost and generating employment opportunity. In addition, efficient transport and communication systems also have effects and allow adoption of latest production techniques such as just-in time manufacturing.

A strong efficient and affordable infrastructure is a critical element of good investment climate. Transport and Communication are important elements of infrastructure services and are essential in maintaining economic growth and competitiveness. Transport and communication sector in Pakistan, account for about 11% of GDP, 16% of fixed investment, 6% of employment and 15% of the public sector development program.

Transport Includes

- Roads
- Railways
- Air Transport
- Shipping

Communication Includes

- Postal Service

- Telegraph-telegram
- Telephone
- Radio Broadcasts
- Television
- Information Technology-Computer

Importance

Importance of Transport and Communications

1. Helps in the expansion of internal and foreign trade.
2. Increases employment opportunities.
3. Increases government revenues.
4. Develops unity and brotherhood among the people.
5. Helps in the improvement of law and order situation.
6. Stabilizes the price level.
7. Reduces cost of production of goods.
8. Helps in the expansion of education.
9. Maintains the sound defense of the country.
10. Develops the political awareness.

Importance of Road Transport

Importance of Road Transport

Road transport is backbone of Pakistan's transport system, accounting for 90 percent of national passenger traffic and 96 percent of freight movement. Over the past ten years, road traffic, both passenger and freight, has grown much faster than the country's economic growth. The 9518 km long National Highway and Motorway network contributes 3.7% of total road network and carries 90% of Pakistan's total traffic.

National Highway Authority

NHA is making concerted effort to develop an efficient, safe and convenient transportation and communication network to meet the growing needs of the country. It is also encouraging the private sector to complement the efforts in accelerating the development of transport and communications network and for improvement in accessibility and delivering of the services provided, encouragement of tourism and bringing about the qualitative improvements life style of masses in particular. Present highway network is burdened by immense traffic and is not sufficient to meet the demanding requirements. Consolidation, preservation and improvement of existing highway asset are needed. Gradual extension of network is equally important to develop remote areas for better connection between economic and social population centers of Pakistan, instill inter provincial harmony and also improve cross-border transport and personal mobility of masses.

Importance of Water Transport

Importance of Water Transport in Economic Development

Water transport is a cheap of transportation. Capital goods, heavy machinery and bulk raw and finished goods can easily and cheaply be transported from and out of the country to the foreign countries. Its importance can be judged from the following facts.

<u>1. Increase in Economic Activity</u>

If country has a sufficient and sound infrastructure in the form of ports and waterways, the economic activity increases because many ships with tons of goods move in and out of harbors of the country.

<u>2. Increase in Foreign Exchange</u>

Water transport increases the foreign trade, as it increases the imports and exports of merchandise from one to the other parts of the world. International trade flourishes and trading partners are benefited a lot.

3. Decrease in Transportation Cost

Transportation cost reduces too much. Thus goods become cheap which improves the international trade between the various nations of the world.

4. Increase in Government Revenue

When foreign trade increases, it not only benefits general public, but it also becomes a great source of revenue for the government by way of customs duties.

5. Increase in Employment Opportunities

Too many people get jobs in shipping industry, as well as in loading the goods from the ships. Thus directly and indirectly lots of jobs are created. This increase the general welfare of the people of the country.

6. Increase in Foreign Investment

Foreign countries shipping offices are opened and investments in infrastructure facilities are set up, which causes an increase in the foreign investment of the country.

Ports and Shipping

Ports and Shipping

1. Karachi Port Trust

The steady and continuous progress made by Karachi Port Trust has helped boost the national economy. The existing port facilities appear to be inadequate to handle the growing cargo at the port. In order to address these constraints, the KPT has launched a number of projects, which are at different stages of execution. As the new generations of container ships come on board, KPT is taking initiatives to be able to cater to the even higher capacity fifth and sixth generation ships. This involves the development of 10 deep draught berths with the total cost of cost $1087 million.

2. Port Qasim

Port Qasim is fast becoming a major contributor to national economy of Pakistan with an impressive growth in port operations. Cargo handling increased from 16.8 million ton to 19.7 million ton over the corresponding period last year. Port Qasim Authority is currently pursuing a large number of projects for capacity enhancement and industrialization, attracting foreign direct investment and undertaking major infrastructure development to enhance its efficiency.

3. Pakistan National Shipping Corporation

PNSC manages 15 vessels with a total capacity of 6,36,182 dwt. The existing fleet consist of 10 multi-purpose cargo vessels, 4 Aframax crude oil tankers and one Panavax bulk carrier vessel which were acquired PNSC's own resources. The four Aframax oil tankers are participating in national and regional crude oil trade. PNSC has carried crude oil cargoes for India, Bangladesh and Srilanka. The corporation is continuing with its efforts to add more vessels at a cost about US$150 million out of which US$135 million is being arranged through foreign financing.

4. Gwadar Port

The Gwadar port would be an integral component of trade corridor for Central Asian states, China and the gulf as 60 percent of oil and gas is done through this route. A deep sea port like Gwadar is already attracting global attention and once it is fully developed with all supporting facilities required to handle trans-shipment and trade. Gwadar will become one of the important gateways to prosperity for the people of Pakistan. Some experts even estimate that Pakistan could earn up to US$ 60 billion per annum of transit trade when

Gwadar Port is fully developed and operational.

5. National Trade Corridor

In order to create a growth-facilitating infrastructure a major initiative namely the National Trade Corridor has been launched, to revamp the whole transport sector including ports, roads, railways, aviation etc. A framework to develop and improving the North South Corridor has been incorporated in it. The framework takes a holistic and integrated approach to reduce the cost of doing business in Pakistan by improving the trade and transport logistics chain and bringing it up to international standards. The initiative is in line with Medium Term Development Framework. The Government's strategy to establish a multi-modal transport system is based on emphasis on asset management with consolidation, up gradation, rehabilitation and maintenance of the existing system, enhanced private sector participation in transport and use of modern technology to increase sector efficiency. The strategy aimed at enhancing regional connectivity to improve links to the Central Asian States, Iran, Afghanistan and India. With the development of the North-South and East West trade links, energy and industrial corridors with China, Central Asian Republics, Afghanistan and Iran would also be developed.

Basic theme of the National Trade Corridor Improvement Program is decreasing the cost of doing business through improvements in the trade logistics. Basic thrust would be to get results through short term, long term measures. In the short term, quick results would be achieved with small investments through policy interventions, systematic and procedural improvement, reducing costs and time and eliminating red-tapism. Long term measures include higher investments on infrastructure, deep-rooted institutional reforms to ensure sustainability at conductive environment for pragmatic investment by the private sector.

An efficient and well-integrated transport system facilities the development of a competitive economy and creates vast opportunities to reduce poverty. It also ensures safely in mobility and augments regional connectivity. The National Trade Corridor will also boost the merging trade and business status of the Gwadar port.

oreign Aid and Economic Assistance

Introduction

Foreign economic assistance is a provision of financial and physical forms of assistance to the developing countries for strengthening their economies.

Different terms of foreign economic assistance/loans are as unders:

1. Bilateral aid means when one country provides loan to another country.
2. Multilateral aid, when loans or Aid is provided by international agencies such as World Bank, International Finance Corporation, I.M.F., International Development Agency, Asian Development Bank, Islamic Development Bank, Pakistan Development Forum.
3. Tied aid is given provided machinery or raw material is purchased from loan given country.
4. United aid is given without any pre-condition, borrower can use it according its needs and requirements and from any country.
5. Food aid is provided in terms of wheat, rice etc to overcome food shortage.
6. Technical Assistance is consultancy services, technical expertise and installation of heavy projects etc.
7. Grants are given on humanitarian grounds for help in famine, floods and earthquake,

which are not to be repaid to donor country.
8. Soft loan is repaid after 25 years and interest rate is from 1% to 3%.
9. Hard loan is paid with 25 years and interest rate is more than 3%.
10. Project Aid/Assistance loan is give for completion on one particular project.
11. Direct foreign investment means foreign countries companies invest in industrial and services projects in Pakistan for the sake of profit.

Advantages of Foreign Aid

Foreign economic assistance is very important for economic development of Pakistan. The advantages or benefits of such assistance are as under:

<u>1. Foreign Loan Bridges Saving Gap and Balance of Payments</u>

In Pakistan due to low national income and poverty, per capital income is very low hence rate of savings is very low. Low savings rate cannot help in capital formation and economic development. Similarly imports are greater than exports therefore there is always deficit in balance of payments. Foreign loan, aid not only bridges domestic savings gap but also helps in overcoming balance of payments problem.

<u>2. Development Requirements are Met</u>

Pakistan wants to develop agriculture, industry, power and natural resources of the country but due to lack of foreign exchange, required technology could not be imported. Foreign aid and loan facilities help Govt. to import the required technology and basic raw material with which different sectors of economy can develop and due to utilization of modern machines productivity is enhanced. Thus productivity of various sectors of economy increases.

<u>3. Establishment of Modern Economic and Social Infrastructure</u>

Economy of a country cannot grow without the presence of economic infrastructure i.e., availability of gas, power, transport and communication. Similarly social infrastructure (i.e., education, training and health facilities), is also essential. These infrastructure facilities require local and foreign capital, which is very limited in Pakistan. Foreign aid helps government to establish these infrastructures. When construction and other development activities are started in the country, these generate employment opportunities for the people.

<u>4. Level of Technological Increases</u>

With the help of foreign aid which is in the way of technical collaboration or project aid, modern machines are used, which produce super quality goods in greater numbers. Hence by using goods of high quality consumers are benefited.

<u>5. Meeting Emergencies</u>

Foreign aid helps Pakistan in emergencies. Whenever there is an earthquake, flood or some other natural calamities, Food Aid program provides Pakistan different types of food items such as wheat, dry milk etc.

<u>6. Defense Modernization</u>

Pakistan wants to modernize its defense capabilities, which can only be possible provided foreign aid is available. Modern Fighter Planes, F-16 and other modern warfare technology can only be secured with the help of foreign aid and loan, as Pakistan do not have sufficient foreign exchange to finance this crucial requirement of the country.

<u>7. Increase in Tax Revenue</u>

When foreign loan is utilized for established of industries and social overheads then economic activities grow, goods and services are produced, foreign trade is increased, all these factors increase Govt's income through different tax sources.

Disadvantages of Foreign Aid

Foreign economic assistance and Foreign Aid result in the following disadvantages.

1. Increase in Foreign Aid's Debt Servicing

Pakistan has already borrowed too much foreign loans and is still borrowing. Now in order to pay interest Pakistan is. Thus debt burden is continuously increasing.

2. Increase in Production Cost

In results in the increase in the cost of project because of interest, heavy remuneration and other fringe benefits, which are given to foreign experts.

3. Habit of Dependence on Foreign Loan and Misuse of Aid

Aid receiving countries including Pakistan do not exert and do not make policies to develop their economy with their own domestic resources. They do not pay attention for development of technology. They just become entirely dependent on others. Major portion of aid particularly commodity aid is misappropriated by the concerned Government officials.

4. Exploitation by Donor Countries

Sometimes loan giving countries interfere in the defense and foreign affairs of Pakistan. That's why it is said that there are always political strings attached to the bilateral loans.

5. Commodity Aid Discourages Domestic Agriculture Output

When aid is in terms of commodity such as wheat etc, which many times is provided at a very nominal price, discourages local production of that commodity because of higher cost of production within the country. This situation discourages local agricultural production.

6. Dependence of Imported Raw Material from Donor Country

If donor country has assisted in establishing imported substitution industry then raw material for the industry will have to be imported from loan given country otherwise industry will not continue its production because particular raw material is not available locally. This causes heavy foreign exchange burden on economy.

7. Project Tied Loans for Less Priority Projects

Sometimes a donor country may give project tied loans for those projects which for the time being may not be on the priority list of borrower and may not be very much feasible. In this way donor can burden the economy of borrower country because principal amount as well as interest has to be paid while project is not needed and is not worth while.

8. Savings Investment and Balance of Payments Gaps

Pakistan is obtaining foreign aid for bridging gap between domestic savings and investment and also to improve balance of payments position but till now it has not been able to accomplish this task, rather both gaps are continuously increasing.

9. Proportion of Tied Aid and Severity of Hard Terms Increased

As the time passes by, it is becoming difficult for Pakistan to obtain foreign aid. The donor countries have increased terms of aid by raising rate of interest and the repayment period has reduced. Too much sureties and guarantees are not demanded from Pakistan by donor countries.

Foreign Private Investment

Foreign private investment or foreign direct investment is very helpful for the economic development of a host country provided they operate within certain restriction, which are given below:

Advantages of Foreign Trade Investment

1. Limits on profit repatriation should be fixed.
2. Foreign investment should have a joint venture with the local partners.
3. Foreign investors should export certain proportions of their products.
4. Monopoly control/anti-cartel laws should be enforced on foreign investors.

Disadvantages of Foreign Trade Investment

1. Profits/royalties are remitted which increases burden on balance of payment of Pakistan.
2. Foreign companies have superior products dominate local market therefore growth of local enterprises suffer a lot.
3. Foreigners establish their factories in big cities for want of protection but it creates economic disparity between rural and urban areas of the country.
4. Foreigners develop friendship with politician and bureaucrats, they provide respectable jobs to their sons and relatives and then use their economic power in influencing government polices to their advantage.
5. Foreign companies having large capital and modern technology operate on monopolistic situation thus exploit consumers by charging heavy prices.
6. Stimulate inappropriate consumption patterns through advertising, such as KFC. Pepsi Cola and Walls and Mobile phones.
7. Stimulate inappropriate consumptions patterns through advertising, such as KFC, Pepsi cola and Walls and Mobile phones.
8. Foreign private investment increases foreign exchange liability on imported raw material.

Budgeting

Fiscal Policy

Fiscal Policy

Fiscal policy of Govt. of Pakistan primarily deals with levels and composition of taxation, spending and borrowing by Government. Fiscal policy encompasses several fundamental policy issues, including the proper role and size of the State, role of Government in promoting growth, creating jobs, social development and redistribution of benefits of economic growth, nature and extent of public services and fairness between the present and the future generations.

Government's fiscal policy has both micro and macroeconomic objectives.

Micro Economic Objectives

It includes an improved distribution of income and wealth, equitable access to social services, meeting the basic needs of poor, promoting investment in public goods and enhancing efficiency with which public and private sectors produce goods and services and their responsiveness to the needs of consumers.

Macro Economic Objectives

It relate to evolution of economy as a whole, national income and output, inflation and balance of payments. Fiscal policy must also ensure that level and structure of taxes promote equality and redistribution and do not interfere unduly in people's investment and consumption decisions.

Central objective of govt. economic policy therefore, is to build a strong economy with a view to creating employment opportunities for all and improve the standards of living of the people of Pakistan. The policies pursued thus far have injected fiscal discipline, reduced the country's debt burden, created a stable macroeconomic environment, revived economic activity and most importantly have created a strong platform of economic stability which is vital for building prosperity and achieving social justice. Economic stability allows business, individuals and the government to plan more effectively for the long-term improvement in the quantity and quality of investment. The Government is committed to locking in stability

and investing in the country's future, enabling it to meet the challenge and rise to the opportunities of the global economy.
A sound fiscal policy is essential for preventing macroeconomic imbalances and realizing the full growth potential. Pakistan has witnessed serious macroeconomic imbalances in 1990s mainly on account of its fiscal profligacy. Persistence of large fiscal deficit resulted in unsustainable levels of public debt, adversely affecting country's macroeconomic environment. Pakistan accordingly paid a heavy price for its fiscal indiscipline in terms of deceleration in economic growth and investment and the associated rise in poverty. Considerable efforts have been made to inculcate financial discipline by pursuing a sound fiscal policy. Pakistan's hard earned macro economic stability is underpinned by fiscal discipline.

Importance of Fiscal Policy

1. Attainment of maximum welfare of common man.
2. Increase in the employment opportunities.
3. Equitable distribution of national wealth.
4. Development of rural areas and reduction in disparity.
5. Control on inflation/price level.
6. Provision/development of health/education facilities.
7. Reduction in non-development expenditure.
8. Encouragement of private investment.
9. Fuller utilization of national resources.
10. Improvement in balance of payments position.

Taxation System of Pakistan

Taxation System of Pakistan

Tax policy is concerned with the design of a tax system that is capable of financing the necessary level of public spending in the most efficient in the equitable way possible. An efficient tax system should raise enough revenue to finance essential expenditures without recourse to excessive public sector borrowing and raise the revenue in ways that are equitable and that minimize its disincentive effects on economic activities. In developing countries, including, Pakistan, the establishment of effective and efficient tax system faces some formidable challenges. The first of these challenges is structure of economy that makes it difficult to impose and collect certain taxes. Economy of Pakistan is often characterized by a large share of agriculture in total output and employment, by large informal sector activities and occupations by many small establishment by a small share of wages in total national income and so on. All these characteristics reduce the possibility of relying on certain taxes such as income tax and to a much lesser extent on sales tax.
The structure of economy of Pakistan in association with low literacy and how human capital makes it difficult to develop a good tax administration. The staff of tax administration is not well educated and well trained, resources to pay good salary and to buy necessary equipment are limited, the tax payers have limited ability to keep accounts, the use of modern communication network is limited, it is difficult to create an efficient tax administration. The consequence of this situation is that Pakistan; often end up with too many small tax sources, too heavy reliance on foreign trade taxes and relatively insignificant use personnel income taxes. The non-availability of reliable statistics from the business makes it even more difficult for tax administration to assess the potential taxes that need to be collected. Uneven income distribution is also a major constraint in Pakistan's efficient tax system. To generate higher tax revenue, the top deciles are supposed to be taxed significantly more proportionality than low deciles. But economic and political powers are

concentrated in the top deciles, which makes the task of tax department rather more difficult to collect taxes from top deciles/rich people. This is one major reason that the number of income tax payers in Pakistan is very low.

Principles of Tax Policy

1. Widening the tax base by reducing exemptions, incentives and concessions.
2. Reducing multiplicity of rates.
3. Lowering tax rates.
4. Shifting the incidence of tax burden from production to consumption.
5. Moving away from excessive reliance on manufacturing.
6. Taxing all value additions including services.
7. Enhancing neutrality between present and future consumption.
8. Reengineering business process of tax system to overcome the culture of tax avoidance and evasion.
9. Change in tax administration.

Deficit Financing

Deficit Financing

Deficit budget means that Govt. expenditure is more than its income from taxes and fee etc. Resources for deficit budget are met by borrowing, which is called Deficit Financing. In Pakistan deficit financing is needed because development programs require huge finance whereas domestic savings and income from taxes are not sufficient enough for this purpose. Increasing savings habits, population control, elimination of corruption, decrease in non-productive expenditure and increase in agricultural and industrial products and remove budget deficit.

Reasons for Deficit Financing in Pakistan

1. Increase in development programs.
2. Lack of saving habits.
3. Increase in population.
4. Lack of fiscal discipline.
5. Political instability.
6. Low output of agricultural sector.
7. Tax evasion and corruption.
8. Increase in non-productive expenditure.

Advantages of Deficit Financing

Advantages of Deficit Financing

Govt. uses borrowed money for increase in social and economic infrastructure such as schools, hospitals, power projects, dams, canals and a host of other development programs, which helps in the improvement and productivity of various sectors of economy. This expenditure of Govt. increases money supply, which increases price level in the economy. Increases in prices, increases profit margins of industrialists, who in order to gain profit further accelerate their investment. New factories are established and capital formation increases. Govt. expenditure and private capital formation creates more jobs opportunities in the economy. Increase in employment increases demand for goods and services and on the other side it fosters saving as well, which again is utilized for further investment. Thus cycle of progress and prosperity keeps on moving ahead.

Disadvantages of Deficit Financing

Disadvantages of Deficit Financing
There is always a time lag between Govt. investment and the output from the projects. Increase in supply of money creates inflation, by which poor people are badly affected. Their purchasing power reduces to a greater extent whereas profit margin of businessmen increases. Society is divided between haves and have-not. Increase in prices of domestic goods causes imports of cheaps goods whereas domestically produced goods high prices reduces the export earnings, which results in the adverse balance of payments position. Cost of production of industrial goods increases with the increase in prices of raw material etc., therefore foreign investment in the country becomes less attractive.

Banking And Finance
Monetary Policy

Monetary Policy
The development of financial markets and institutions is a critical and inextricable part of the economic growth. Financial sector deepening (financial development that includes not only an expansion in the financial sector, but also an improvement in institutions so that the financial system can allocate capital to its more productive uses more efficiently) and economic growth are empirically linked. The banking sector of Pakistan was nationalized and public sector financial institutions were expanded during the early 1970s, based on the objectives of directing banking activities towards national socio-economic objectives and ensuring complete security of depositor's funds. The dominance of the public sector in banking sector and non-bank financial institutions, coupled with centralized policies marked with administered interest rates, domestic credit controls, high reserve requirements, use of captive banking system to finance large budgetary requirements of the government and controls on international capital flows were responsible for deterioration of financial institutions and their inability to play a vital role in economic growth of the country.
Monetary Policy stance of the State Bank of Pakistan has undergone considerable changes over the last several years switching from an easy to a broadly accommodative stance and then from a gradual tightening to an aggressive tightening stance till date.
Tight Monetary Policy pursued during the year slowing down the credit growth to private sector from 19.8 to 12.4 percent. The volume of credit also declined substantially in the same period clearly suggested that the policy stance has considerable success in shaving off excess demand in the economy. The impact of tight monetary was felt considerably in textiles, cement, commerce and personal loans. However, other factors also contributed to slower growth in private sector including credit from non-banking financial institutions, availability of foreign private loans and issuance of corporate bonds in international capital market by private sector companies, mergers and acquisition in the banking industry and continuous monitoring by the State Bank of Pakistan of the personal loans not being used for speculative activities.
Money Market

Money Market
Money market of Pakistan is engaged in short term lending and borrowing of money. To take one example a company with surplus short-term funds might deposit these funds with

its bank, which in turn uses, the money to purchase treasury bills issued by the State Bank of Pakistan. Money market links the following three institutions.
1. Banks and all other financial institutions.
2. Companies and trading firms.
3. Central Bank.
State Bank continued to exercise tight monetary policy and therefore it intervened quite frequently in the inter bank money market to achieve the desired results. Tight money market conditions were also reflected in rising interest rates in the secondary market, particularly the short-term rates as 6 month and 12 months. Tight market conditions also led the commercial banks to raise the average deposit rate thus general deposits are benefited. Strong demand for Treasury bills continued in the current fiscal year also. State Bank accepted Rs. 688.8 billion from primary market of treasury bills during the nine months of current year compared to Rs. 1052.0 billion in the last year (12 months).
Capital Market

Capital Market
Capital market play crucial role in investment promotion and economic development of a country. To make Pakistan's capital market an attractive window for potential investors govt. has taken a number of initiatives to streamline the taxation system especially on dividend income of foreign investors, extension of tax exemption on capital gains and permission for the private sector to launch open-end mutual funds etc. As a result of successful implementation of the successive reform measures the capital market has been growing by leaps and bounds and has emerged as one of the important pillars of the economy.
The pace of country's privatization program has gathered greater momentum as a number of public sector banks and corporations have been privatized while some other are in pipeline. Under new privatization strategy, government is selling off its shares of state controlled enterprises by listing them on the bourses as well as a view to broadening and deepening capital markets. The low interest rate environment of the last three years has been a positive development for the country's stock markets as investors seeking higher returns entered the markets with a bang; causing boom in stock exchanges.
The improved performance of stock market can mainly be attributed to consistent and transparent economic policies resulting in strong economic growth, a successful privatization processes attracting foreign investors in prestigious organization like PTCL and National Refinery, sound monetary policy of State Bank, maintenance of fiscal discipline and capital market reforms including development measures introduced by stock exchanges with full support of Securities and Exchanges omission of Pakistan. The privatization of government units through bourses helped to broad base the equity ownership to a significant level.
There are several factors that contributed to the bullish sentiment in stock markets during the last several years. These factors includes:
1. Speedy privatization process.
2. Attracting foreign investors in prestigious organizations like PTCL and National Refinery.
3. Early resolution of the IPP issue.
4. Allowing foreign investor to repatriate their funds without any restrictions.
5. Reduction in the interest rates by the banks.
6. Recovery of outstanding/over due loans.
7. Rescheduling of foreign debts and prepayment of the expensive foreign loans.
8. Continuous improvement in economic fundamentals such as economic growth, sound

monetary and fiscal policies with fiscal deficit under control.
9. Higher revenue collection.
10. Lower inflation.
11. Rising export earnings and stable exchange rate.
12. Declining debt burden and higher industrial growth.
13. Efficiency in trade through automation and curbing insider trading.
14. Strengthening the structure of the Security Exchange Commission of Pakistan.
As a result of these important development capital and stock markets in Pakistan grew by leaps and bounds during the last seven years and emerged as one of the best performing markets in emerging economies
Mutual Funds

Mutual Funds

Mutual Fund is an institution established for investing a pool of funds in various type of securities/shares for the benefit of investors. A small investors is unable to diversify his portfolio of funds simply because of high investment required for diversification. Mutual funds provide a means of diversification of investment by small investors. Initially mutual fund collects funds from small investors and when sufficient funds are gathered, and then they are invested into securities of different types, thus diversifying the portfolio. A management company manages a mutual fund. A Portfolio Manager, whose responsibility is to satisfy the desire of the investors, manages the portfolio of mutual fund. The fund manager invests money on behalf of the investors. The fund manager is paid a management fee. If there is a profit or gain on investments, it belongs to the investors. In case there is a loss, it is also borne by the investors.

Types of Mutual Funds

Types of Mutual Funds

1. Open-End Mutual Funds

An open-end fund does not have a fixed pool of money. In it subscription and redemption of shares are allowed on a continuous basis. The price at which the shares of open-end funds offered for subscription and redemption is determined by net asset value after adjusting for any sales load or redemption fee. In Pakistan there exist 13 open-end mutual funds listed at Karachi Stock Exchange.

2. Close-End Mutual Funds

A closed-end fund has a fixed pool of money, which is collected when the fund is set up. In it shares are initially offered to public and traded in secondary market. The trading usually occurs at a slight discount to the net asset value. Now mutual fund managers have developed a variety of investment products to cater for the requirement of investors having different needs.
A mutual fund can generate profits from three different sources i.e.,

- dividend
- capital gains
- appreciation of share price

Mutual fund generates income from dividends received from other joint stock companies whose shares the fund holds. A mutual fund uses this dividend income to distribute dividend to its own stockholders. The capital gain generated by mutual fund is also used to pay dividends to investors of the fund. Mutual funds also increase investment of their shareholder through appreciations of share price of mutual fund. In Pakistan there exists 23 close-end mutual funds listed at Karachi Stock Exchange. There is tremendous growth potential for mutual funds as vehicle to maximize their earnings from share-market.

Commercial banks and insurance companies have also emerged as big institutional investors. Government also provides safety nets to the investors by regulating the mutual fund business.
Pakistan's Mutual Funds sector is still at the nascent stage and has yet to achieve mainstream status. The regulators along with the institutions need to promote international best practices and corporate governance, spread consumer awareness and maintain investors confidence, Pakistan's mutual fund industry is witnessing exceptional growth owing to upturn in the country's economy. Initially the market was dominated by public entities like ICP, NIT but with the emergence of private sector assets managers, the mutual fund sector is heading in the right direction. Currently mutual funds accounts for only 2.4 percent of the country's GDP compared to 6 percent for India and 69 percent for the USA. Mutual fund accounts for 16.5 percent of Pakistan's national savings

Economic Planning

Economic Planning

Economic Planning

Economic planning is the making of major economic decisions – what and how much is to be produced and to whom it is to be allocated by the conscious decision of a determine authority on the basis of a comprehensive survey of the economic system as a whole. Planning is a technique for achieving certain self-defined and pre-determined goals laid down by a central planning authority. It is a conceiving, initiating, regulating and controlling economic activity by the State according to set priorities with a view to achieving well-defined objectives within a given time. It is planning alone which can guarantee quick economic growth in under-developed countries.

Objectives of Economic Planning

Objectives of Economic Planning

1. Increase in the Rate of Economic Development

One of the most important objectives of Economic Planning is to increase the rate of economic development. Capital formation should be carried out. Infrastructure facilities should be extended and social overhead such as education, technical training and health facilities should be increased. Planning in Pakistan should be done keeping in mind that country is populous and there are too many people looking for jobs, hence labor intensive projects should be given priority, which will absorb labor force and employment opportunities will increase. Increase in employment will increase national income and per capital income. Standard of living of people will raise and rate of domestic savings will increase.

2. Diversification of Economy

All sectors of economy should be given proper importance. No sector of economy should be neglected. Pakistan is an agrarian country, the development of industry of Pakistan depends upon agriculture, therefore more emphasis should be given to agriculture. Since population is too much and it is further increasing at a fast rate, therefore production of food grains should be increased.

3. Price Stability

Increase in price level hits the poor and fixed income people very much, whereas decrease in price reduces profit margins of the businessmen, which causes reduction in investment. One economic planning is to maintain the price stability. Through planning equal distribution of national wealth be made. The society should not be divided between “Haves and Have-nots”

4. Higher Standard of Living

Economic Planning should ensure that good education; technical training and better medical facilities are available to all the people of the country. Every one should be provided a reasonable accommodation. Thus policy should standard of living of the masses.

5. Improving Balance of Payments

All out efforts should be done under planning that balance of payments continues to improve. Export oriented and import substitutions industries should be given importance. Luxurious goods should be banned and small and agro-based industries should be given concessions and facilities. Imports should be reduced and export increased, in order to improve foreign exchange earnings. Dependence on foreign aid and grants should be curtailed.