CSF
COMPETITIVENESS SUPPORT FUND

The State of Pakistan's Competitiveness Report 2008

Creating Sustainable Economic Growth

About the Competitveness Support Fund (CSF)

The Competitiveness Support Fund (CSF) is an independent body established in March 2006 to reposition the Pakistan economy on a more competitive global footing. It is a joint initiative of the Pakistan Ministry of Finance and the United States Agency for International Development (USAID)[1].

Competitiveness is the key to sustained economic growth, job creation, income generation and consequently poverty alleviation. On the basis of the previous "The State of Pakistan's Competitiveness 2007" report the Prime Minister announced that competitiveness would be the cornerstone of Pakistan's economic growth strategy. Based on CSF's work, the Ministry of Finance has enshrined competitiveness in the Poverty Reduction Strategy for Pakistan.

CSF's work is fully described in its Annual Report for 2008 and on its website at www.competitiveness.org.pk

The Report for 2008 was prepared by a joint team from CSF and J.E.Austin Associates, Inc. (JAA) a Washington DC-based consulting company specializing in competitiveness issues.

The information provided in this Report does not represent the views or positions of the Government of Pakistan, the United States Government (USAID) or the World Economic Forum. The team responsible for this report used a wide variety of sources. No representations or warranties are given regarding the completeness of the data which is from published sources.

The Competitiveness Support Fund would like to acknowledge and thank all those who helped with this Report including the World Economic Forum, the team from J.E.Austin, all Government of Pakistan line ministries and agencies and a great number of persons from the business community and civil society.

[1] The CSF is the outcome of a USAID-sponsored benchmarking exercise of the enterprise competitiveness and economic growth policies of the Government of Pakistan undertaken in 2005. The work aimed to identify shortcomings in enterprise competitiveness and development stakeholders operations that have prevented organizations from fostering competitiveness in Pakistan.

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Acronyms

PCR	Pakistan Competitiveness Report
BCI	Business Competitiveness Index
GCI	Global Competitiveness Index
GCR	Global Competitiveness Report
FDI	Foreign Direct Investment
IP	Intellectual Property
GDP	Gross Domestic Product
USD	United States Dollar
FY	Fiscal Year
NWFP	North West Frontier Province
SMEDA	Small and Medium Enterprise Development Authority
IT	Information Technology
GLIS	Global Services Location Index
BPO	Business Process Outsourcing
ICT	Information and Communication Technology
BPL	Broadband over Power lines
WEF	World Economic Forum

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Statement by the Minister for Finance, Revenue, Economic Affairs and Statistics and Chairman of the Competitiveness Support Fund, Syed Naveed Qamar

Since the last election Pakistan has faced a number of economic challenges. Price inflation of critical imports in world markets and domestic sector matters affect the competitiveness of the Pakistan economy. The food security situation has been of particular concern. A growing youth population requires improved vocational skills. This challenging environment, especially for a newly elected democratic government, suggests that the issues impacting the competitiveness of the economy are those that must be tackled urgently.

The Competitiveness Support Fund (CSF), a joint initiative of the Ministry of Finance, Government of Pakistan and the United States Agency for International Development (USAID), understands the nature of the challenge and realizes the importance of meeting and exceeding Pakistan's expectations for a more competitive footing in the global economy. This Report, issued by CSF, represents a welcome basis for tackling the various issues we face today.

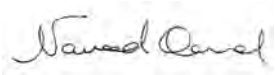
Based on the findings of the Report, Pakistan has made improvements in the service and financial industries and areas of the government, however, there is still much to do in the areas of product quality, cost, product differentiation and human resource development. In the current World Economic Forum Ranking Pakistan ranks 92nd out of 131 countries, which we have to improve in the coming years.

The Report draws attention to the fact that in a global economy, competitiveness is central to Pakistan's future prosperity. In simple terms, this will depend on how efficiently Pakistan produces and markets its goods and services. Sound macro-

[1] The CSF is the outcome of a USAID-sponsored benchmarking exercise of the enterprise competitiveness and economic growth policies of the Government of Pakistan undertaken in 2005. The work aimed to identify shortcomings in enterprise competitiveness and development stakeholders operations that have prevented organizations from fostering competitiveness in Pakistan.

economic policies are required, but private industry will also have to play its part in partnership with the public sector. There is a particular need to focus priority attention on workforce development, creating a modern workforce with the skills and mental agility to be responsive to changing demands.

The new Government of Pakistan is dealing with these matters as a priority and continues to view competitiveness as a cornerstone of growth-oriented economic policy. This Report is a considerable step forwards in helping all the stakeholders in the Pakistani economy to understand what needs to be done.



Executive Summary

The Pakistan Competitiveness Report 2008 (PCR) benchmarks the country at a time when Pakistan faces new economic challenges. The Government faces severe economic circumstances during a period of high global food and energy prices which have implications for poverty reduction, economic growth, inflation, trade balances and fiscal balances. Improving competitiveness and productivity is more urgent than ever. The PCR is based on findings of the World Economic Forum Global Competitiveness Report 2007-08; the most comprehensive and most influential competitiveness rankings, which compare hard data and survey data for 131 countries. The PCR complements this snapshot with other economic indicators and rankings from other sources to provide a more complete, cross-checked and nuanced picture.

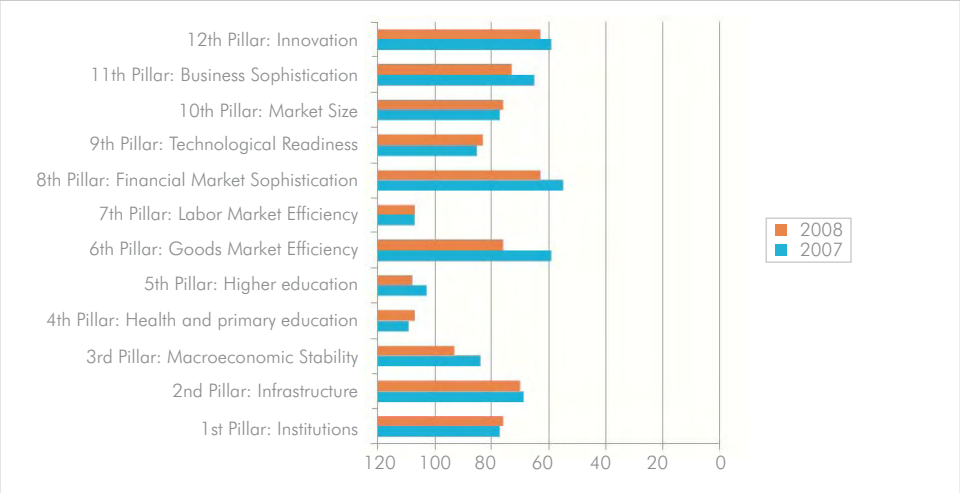
Government leaders, industry stakeholders and the media will find this Report of Pakistan's competitiveness revealing and it can help leaders set priorities at the industry level and at various levels of Government. The Report is designed not only to benchmark Pakistan's current competitiveness but also identify priorities for action. There are implications in this report for Government leaders, industry leaders, entrepreneurs, civic leaders and educational leaders. Many of the issues identified here are equally relevant to the federal, provincial and even the district and municipal level. Constraints to competitiveness can sometimes be addressed most effectively at the industry level or specific locality.

In a global economy, competitiveness is central to Pakistan's future prosperity. Therefore Pakistan must reach a level of competitiveness that benefits the entire country. Pakistan is among the lowest one-third of countries in competitiveness rankings. Pakistan ranked 92nd out of 131 countries in the latest Global Competitiveness Index (CGI).[2] These performance rankings are mirrored by the

[2] An annual global benchmarking exercise conducted by the World Economic Forum.

The Pakistan Competitiveness Report 2008 (PCR) benchmarks the country at a time when Pakistan faces new economic challenges. The Government faces

Main 12 pillars of Competitiveness for Pakistan



Source: WEF and State of Pakistan's Competitiveness Report 2008
Note: The scale is read from right (highest ranked) to left with e.g., the 8th Pillar for Goods Market Efficiency showing Pakistan ranked number 60 in 2007

Pakistan's competitiveness rankings are stagnating rather than improving. Pakistan's underlying competitiveness scores have improved modestly, but other countries have been improving more rapidly. As a result Pakistan has fallen from 91st place to 92nd and thus its rank among other countries remains virtually unchanged from last year.

Pakistan's low scores are a function of poor performance in human resources: primary education, higher education and training and labor market efficiency. Pakistan's scores for these indicators were quite low at 115th, 116th and 113th places respectively. This indicates the need to focus priority attention on workforce development — creating a modern workforce with the skills and mental agility to be responsive to changing demands. A focus on workforce development will

have the benefit of boosting incomes for the average worker while better productivity will provide benefits to Pakistani industries.

There is a growing perception that business competitiveness at the firm level has been falling in Pakistan as evidenced by a sharp decline in selected scores for 2007-08. Pakistan's Business Competitiveness Index (BCI), which captures firm level strategy and operations, declined 15 positions from 64th to 79th position in one year. Pakistani companies are finding it increasingly difficult to compete as industries in other countries continue to improve their competitiveness. These same Pakistani companies, facing stiffer economic competition, may now be more aware of their true competitive position — affecting a more realistic self-scoring than previous years. And there may indeed have been a falling off in the underlying competitiveness as represented by loss of orders, market share and profitability. Agriculture, particularly wheat, has also not performed as well as expected. In the service economy, Pakistan continues to under-perform in software and back office business services compared to India and other countries despite the advantage of having excellent English training and speaking capability. A significant decline in Good Markets Efficiency scores indicates market forces may be impeded, limiting the competitive efficiency of the private sector.

The business environment still limits the performance of firms. The increasingly unreliable electricity supply, a weak judicial system and the lack of world-class commercial courts are among the areas highlighted in this year's PCR. Improvements in the business environment are needed at the federal, provincial and local levels.

The fact that women have such a limited access to the cash economy severely limits Pakistan's competitiveness. Pakistan as a whole still lags behind the South Asia region in terms of reaching women with financial services. Only 4% of a potential market for credit for women of 22 million persons has been penetrated either by traditional or micro-finance institutions. A very small number of women in Pakistan actually participate in the economy with their own businesses (perhaps

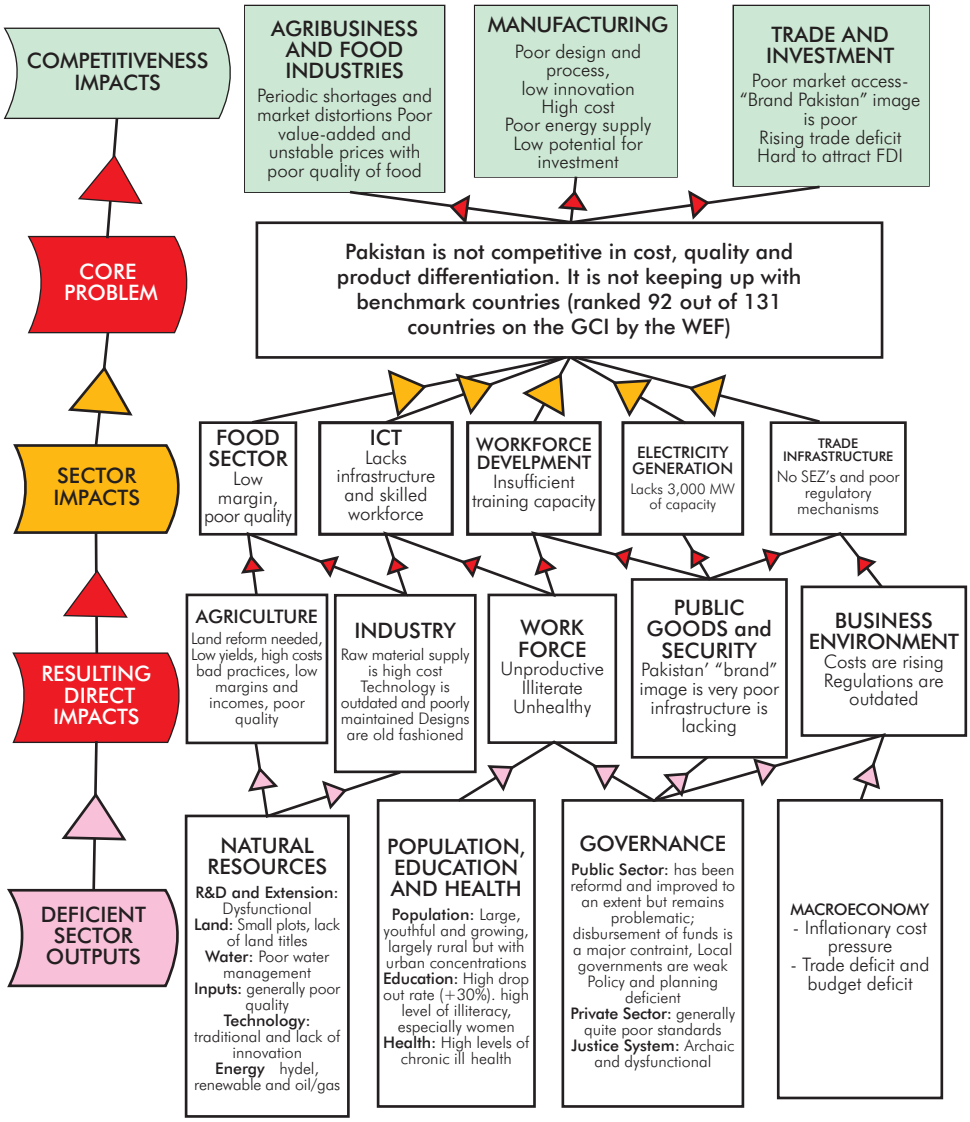
less than one million). Until women are fully included in the economy, Pakistan will lag behind its competitors.

A comprehensive competitiveness strategy, if implemented, can help Pakistan achieve higher growth, improved productivity and higher living standards. The evident slowing in economic growth can be addressed by a comprehensive competitiveness strategy. This will depend on the Government addressing economic issues amidst the currently unresolved constitutional and political issues that seem all-absorbing for a coalition Government. Nonetheless, the success of the Government may ultimately depend on its ability to achieve important economic goals. This Report provides a benchmark by which to measure future performance, and identifies strengths and weaknesses that can help Government and industry leaders prioritize action. If a comprehensive competitiveness strategy can be formulated by the Government, the country can achieve sustainable economic growth and higher living standards even while dealing with the rising food and energy prices.

The Report recommends the development of a Comprehensive Competitiveness Strategy designed and implemented by an inter-ministerial working group. A piecemeal approach will not effectively deal with the growing challenges. It is imperative that a broad-front campaign transcend territorial boundaries of specific ministries and cabinet officers in favor of a coherent vision with specific and time-bound objectives.

Empower each Province to implement competitiveness benchmarking and competitiveness initiatives. Pakistan's decentralized structure means that each province will play a critical role in building competitiveness. This report calls for a comprehensive region-driven repositioning of industries in global markets. Each of the four Provincial Governments should formulate their own comprehensive competitiveness strategies that would convene and involve working groups from Government, Industry and civil society. Provinces should encourage local economic development strategies at the District level. The PCR 2008 also recommends a public awareness and mobilization campaign to create popular understanding and support for competitiveness-related initiatives.

"Problem Tree" illustrating main Competitiveness issues for Pakistan's Economy



Introduction

This Pakistan Competitiveness Report (PCR or "The Report")) notes the importance of competitiveness for Pakistan, showing how it is measured, explaining Pakistan's score, examining Pakistan's strengths and weaknesses and examining scores that either improved or worsened over the last year. The PCR then reviews other objective indicators related to investments and exports. To further examine Pakistan's competitiveness, the Report presents the results of illustrative case studies in agriculture, light manufacturing, ICT (offshore services) and women's access to finance undertaken by CSF.[3] These shed further light on Pakistan's competitiveness challenges. The PCR concludes by summarizing some key conclusions and recommendations.

Importance of Competitiveness for Pakistan

Competitiveness is the key to sustainable growth in Pakistan. In this era of globalization, competitiveness in the world economy is the key to sustainable economic growth and improved living standards. Sustainable economic growth has proven to be the key driver of poverty reduction. Competitiveness is also critical to making Pakistan a strong nation. In a world characterized by higher energy prices, higher food prices and economic uncertainties, Pakistan's competitiveness becomes more urgent than ever.

Globalization is creating a new set of winners and losers in the economy. China has become a leading economy, with high rates of growth and impressive rates of poverty reduction. Countries struggling to adapt to globalization are having a tougher time. The key to achieving prosperity in a global environment is promoting competitiveness that benefits the broader population.

[3] The case studies included in this Report are for illustration purposes only. They are not intended to be a comprehensive report of all CSF's work; this is to be found in the Annual Report for 2007 08 available from CSF

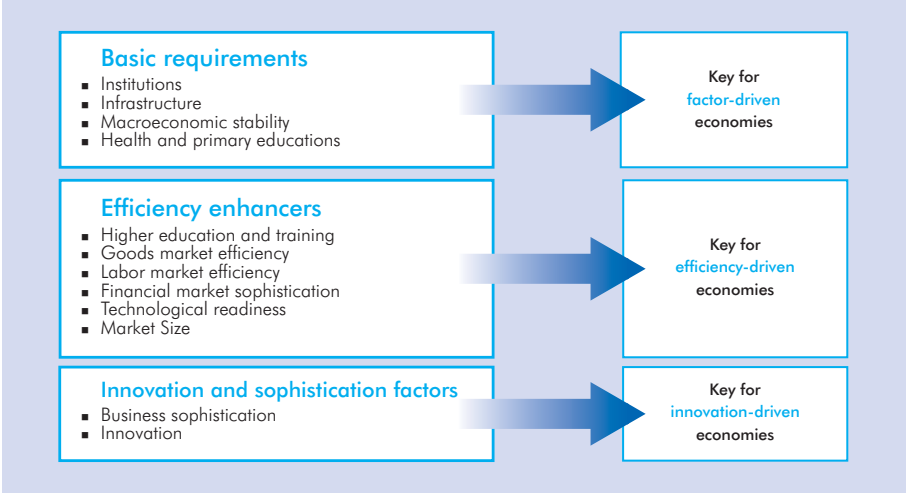
Competitiveness can be defined as sustainable growth in productivity that benefits the average person.[4] Competitiveness is driven not only by the macro-economic environment but also by the quality of the micro-economic business environment and by the quality and sophistication of business strategy and *operations.*[5] Competitiveness is not to be confused with mere devaluation of the currency, cheap raw materials or cheap labor. Countries that try to base their competitiveness on cheap labor are in a race with other poor countries to see who can win at the game of keeping people poor. Competitive countries, such as Japan and Singapore, for instance do not have abundant raw material resources. Countries such as Switzerland, Germany and China, are characterized by stronger currencies and improving wage levels. Competitiveness means high and rising wage rates based on improved productivity. The Report can inform policy makers at this crucial juncture in time. It will help them benchmark progress. The PCR can also serve as a useful tool for private-public dialogue. As the PCR is published annually, it will provide an accurate picture of potential improvements in the situation.

The World Economic Forum Global Competitiveness Index (GCI)

The Report relies heavily but not solely on the World Economic Forum Global Competitiveness Index.[6] This index is the most comprehensive and most authoritative index of its kind. The GCI has been in existence for over a generation. It now includes 131 countries. The GCI uses hundreds of indicators, both quantitative and qualitative. The GCR includes an annual survey of over 10,000 executives worldwide.[7]. While it continues to evolve over time, it has become a key opinion-shaping annual report associated with the World Economic Forum at Davos, Switzerland. By analyzing it in greater detail, government leaders in Pakistan can receive valuable insights. The PCR complements this data by referencing other important global indices such as the World Bank Doing Business Report, the Heritage Foundation Index of Economic Freedom and other ranking systems

[4] The full definition used by Professor Michael Porter, one of the world's leading experts in competitiveness, is: *"A nation's prosperity depends on its competitiveness, which is based on the productivity with which it produces goods and services. Sound macroeconomic policies and stable political and legal institutions are necessary but not sufficient conditions to ensure a prosperous economy.*
Competitiveness is rooted in a nation's microeconomic fundamentals. An understanding of the microeconomic foundations of competitiveness is fundamental to national economic policy"
[5] Ibid.
[6] *CSF is the partner for the World Economic Forum in Pakistan. However this Report is an independent document and not a publication of the WEF which has no responsibility for its content.*
[7] *The Executive Opinion Survey is carried out in Pakistan by the Competitiveness Support Fund on behalf of the WEF*

Table 1: Global Competitiveness Weightings for Pakistan



Source: World Economic Forum, Global Competitiveness Report (2007/08)

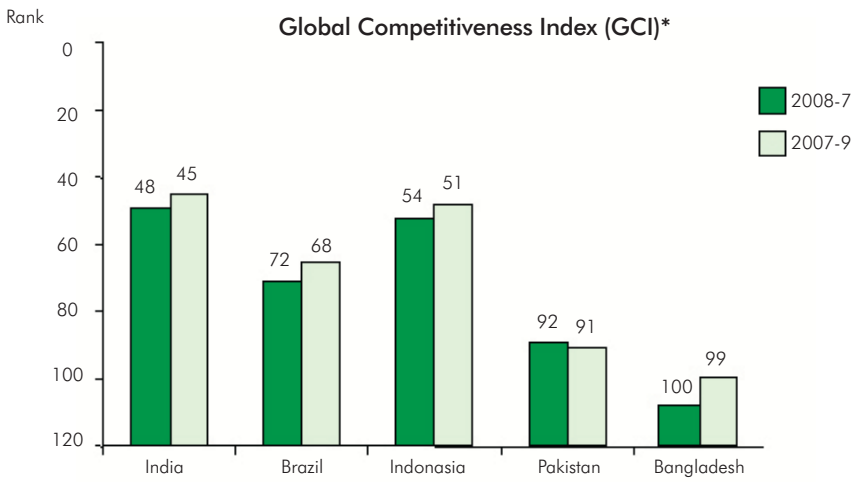
The 2007-08 GCI is divided into 12 Pillars and 3 major categories. Based on empirical research, the authors of the GCI have found that certain factors, such as innovation, are more critical to countries at higher levels of economic development. For countries at lower levels of economic development, factors such as basic education, infrastructure and institutions are more important. Furthermore, countries in the earlier stages of economic development tend to base their competitiveness on factors of production such as raw materials and labor costs. As countries progress, their competitiveness is driven more by efficiency-enhancing mechanisms such as technological readiness and efficiencies in labor, goods and financial markets. As countries achieve high levels of educational attainment and adapt to market forces, continued increases in productivity are based more and more on the sophistication of company strategy and operations and on new innovations. Therefore the authors of the GCI place different weights for countries at different points along this continuum. Pakistan is considered a country that is still "factor-driven" and thus more weight is given to "basic requirements" such as those illustrated in the table.

I. Pakistan's Performance on the Global Competitiveness Index (GCI)

Pakistan's Overall Ranking

Pakistan is among the bottom one-third of countries ranked by the GCI. Though Pakistan's absolute raw score has improved over the years (from 3.4 in 2003-04 to 3.8 in 2007-08), in its relative performance (country rankings) Pakistan remained low – behind 70% of all countries included in the GCI. The situation has not been improving.

Table 2: Pakistan Fell From 91st to 92nd Place In the 2007-08 Global Competitiveness Index



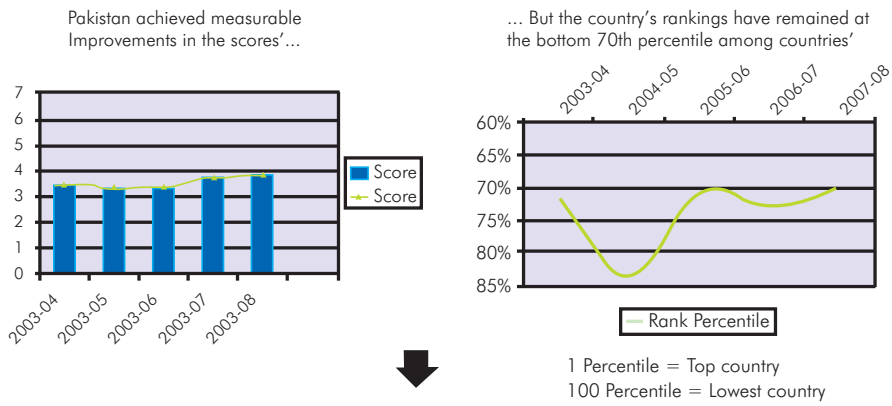
Source: World Economic Forum, Global Competitiveness Report, 2007-2008.

Pakistan ranked 92nd in 2007-8 compared to 91st in 2006-7

Pakistan's ranking fell from 91st to 92nd place. Pakistan's ranking did not improve last year. This is only partly explained by the introduction of new countries in 2007. Pakistan's overall ranking (92) puts it ahead of Bangladesh (107), but behind Indonesia (48), Brazil (72), India (54), China (34), and Sri Lanka (70).[8]. The table shows that while Pakistan's raw scores have improved modestly over time, Pakistan remains among the lowest 30% of performers. Pakistan remains among the bottom 30% of performers and has not been improving.

Table 3: Pakistan's performance in the GCI Over time (2003/04-2007/08)

Pakistan's performance has stagnated



Pakistan's absolute performance (scores) in the GCI has improved over the year (3.4 in 2003 04 to 3.8 in 2007 08); however, its relative performance (ranking) remained the same at around bottom 70%

J.E Austin Associates, Inc.

Causes of Low Rankings

By ranking Pakistan's performance from highest scores to lowest scores, one can better understand what is dragging Pakistan down and where Pakistan is strong. The PCR will first focus on the strengths. Pakistan has relatively strong financial markets and the banking industry has improved its efficiency in recent years.

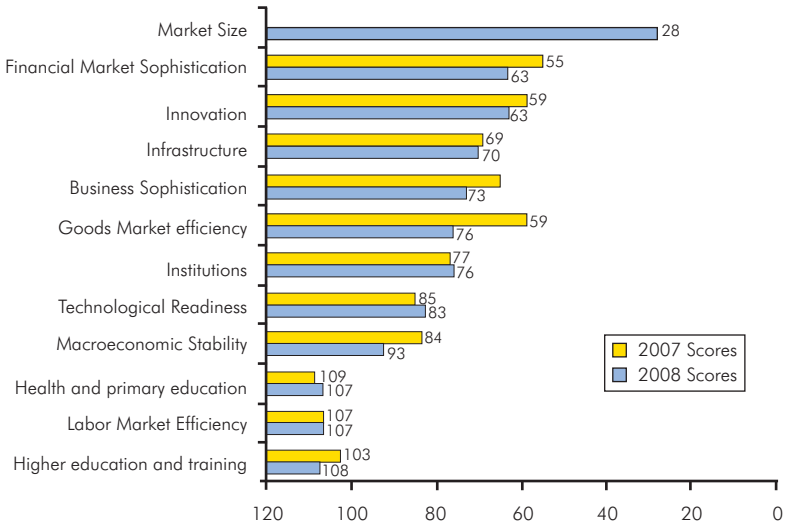
[8] Pakistan's low standing in health and primary education contributes notably to the low overall score.

Pakistan also shows strength in the area of innovation and gets good scores for much of its infrastructure (electricity being a notable exception). Business sophistication ranks relatively well, although there was a major downturn in that area this past year.

Pakistan's low scores are explained largely by very poor results in areas related to human resources such as primary education, higher education and training and labor market efficiency. These three pillars came in at 115th, 116th and 113th places respectively, which are very low scores. This highlights the need to make workforce development a priority. Pakistan's lack of competitiveness is also a problem of underutilization of its human resources and lack of investment in education and training. Pakistan must focus on empowering its people to gain knowledge and skills that equip them to play a productive role in a modern workforce.

Solving this problem — making people more productive — will also empower people to earn higher incomes thereby reducing poverty and creating a fairer society. Low scores were also accorded to the macro-economy based on hard data related to inflation, budget deficits and government debt.

Table 4: Pakistan's GCI Rankings: Low Scores Related to Human Resources and Macro-economy



Human Resource-related rankings drag down Pakistan's score.
The biggest reverse related to goods market efficiency.

* Using a constant sample for both years. Source: World Economic Forum, 2008, JAA analysis

The most important weaknesses are related to human resources. The weakest scores for Pakistan remain in Higher Education and Training (108), Labor Market Efficiency (107), and Health and Primary Education (107). These scores should focus the attention of Government policy makers on making Pakistan's people more competitive and more productive by investing more and more effectively in their health and education while also modernizing labor market policies.

Table 5: Competitiveness Balance Sheet for Pakistan Notable Competitive Advantages and Disadvantages

Notable Competitive Advantages

	Rank
1st pillar: Institutions	
Protection of minority shareholder's interests	39
2nd pillar: Infrastructure	
Available seat kilometers*	42
Quality of railroad infrastructure	45
3rd pillar: Macroeconomic stability	
Interest rate spread*	44
4th pillar: Health and primary education	
HIV prevalence	25
6th pillar: Goods market efficiency	
Business impact of rules on FDI	24
Extent and effect of taxation	32
7th pillar: Labor market efficiency	
Hiring and firing practices	26
Pay and productivity	43
Non wage labor costs*	45
8th pillar: Financial market sophistication	
Strength of investor protection*	19
Ease of access to loans	41
10th pillar: Market size	
Domestic market size index*	25
11th pillar: Business sophistication	
Local supplier quantity	48
12th pillar: Innovation	
Government procurement of advanced technology products	49

Notable Competitive Disadvantages

	Rank
1st pillar: Institutions	
Efficacy of corporate boards	129
Business costs of terrorism	123
Transparency of policymaking	101
Reliability of police services	95
Business costs crime/violence	91
2nd pillar Infrastructure	
Quality of electrical supply	107
Telephone lines*	107
Quality of air transportation	78
3rd: Macro stability	
Gov. surplus/deficit*	110
Inflation*	98
National savings rate*	97
4th pillar: Health and primary education	
Primary enrollment*	120
Infant mortality*	117
Education expenditure *	115
Qlty of primary education	112
5th pillar: Higher education	
Secondary enrollment*	120
Extent of staff training	118
Tertiary enrollment*	116
6th pillar Goods market efficiency	
Trade weighted tariff rate	110
Intensity of local competition	105
7th pillar: Labor mkt. efficiency	
Female participation*	123
Firing costs*	104
Reliance on prof mgmt	101
8th pillar: Financial sophistication	
Regulation of Securities	93
9th pillar: Technology	
Mobile subscribers*	113
Broadband subscribers *	100
10th pillar: Business sophistication	
Control of int'l distribution	97
Production process soph	97
Nature of compet advantage	91

Source: World Economic Forum, 2008, JAA analysis

In the table, some of the notable advantages and disadvantages, and strengths and weaknesses have been pointed out. Pakistan's low scores are attributable to low scores related to human resources (education and labor markets), macroeconomic stability, institutions and some areas of infrastructure, notably electricity.

Highest and Lowest Scores for Individual Indicators (Sub-Pillar Level)

Pakistan has shown some strength related to domestic and foreign direct investment. While investment indicators are susceptible to change, Pakistan showed strength

in some specific indicators related to domestic and foreign investment. The impressive improvement in actual FDI, presented later in this report, may be related to the high scores noted above for the following four indicators:

- Business Impact on rules in Foreign Direct Investment (24);
- Investment Protection (19);
- Domestic Market Size (25);
- Improvements in Intellectual Property (IP) enforcement (jumping from 71st to 48th place from last year).

Despite these relatively good scores, Pakistan has some of the world's lowest rankings in other specific areas. These affect negatively the environment for domestic and foreign investment or work against high productivity of firms in Pakistan. Very low rankings for Pakistan (out of 131 countries) were evident in the following categories:

- Efficacy of corporate boards (129);
- Business costs of terrorism (123);
- Quality of electricity supply (107);
- Primary enrollment (120);
- Infant mortality (117);
- Extremely low female participation in the workforce (123).

To improve its rankings, Pakistan should focus on improving labor markets, strengthening basic health, improving basic and advanced education and vocational training. Major improvements in these areas will do much to boost Pakistan's scores in the future. If Pakistan does not improve its indicators related to human resources, education and labor markets, it will not be able to advance markedly in the rankings. These findings would suggest the need for a major workforce competitiveness initiative in Pakistan. Improvements in macroeconomic management would also do much to improve Pakistan's competitiveness ranking.

Major Changes in Pakistan's Rankings from Last Year

Changes in rankings, by pillar, show where Pakistan improved or fell back in specific areas. Pakistan showed modest improvements in health and primary education (improving slightly from very low levels) and in technological readiness, market size and institutions. However, there was a major negative change in the perceptions regarding goods market efficiency. There was also a major fall in rankings related to macroeconomic stability, financial market sophistication and business sophistication.

Table 6: Changes in Pakistan's Recent Competitiveness Performance

Pillar	Description	2007	2008	Change
6	Goods Market Efficiency	59	76	-17
3	Macroeconomic Stability	84	93	-9
8	Financial Market Sophistication	55	63	-8
11	Business Sophistication	65	73	-8
5	Higher Education	103	108	-5
12	Innovation	59	63	-4
2	Infrastructure	69	70	-1
7	Labor Market Efficiency	107	107	0
1	Institutions	77	76	1
9	Technological Readiness	85	83	2
3	Health and Primary Education	109	107	2
10	Market Size	N/A	28	N/A

Perceptions and Reality: Comparing Hard Data and Survey Results

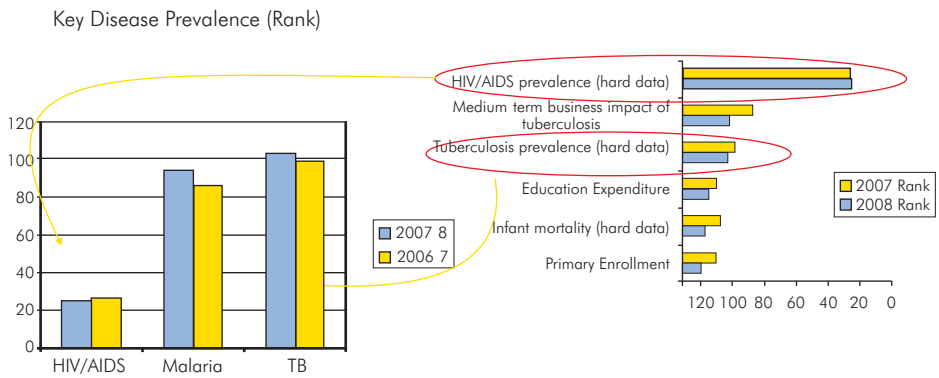
Hard data and survey data generally corroborated each other with one important exception: the perception of health problems. The GCI is based on both hard data and survey data. Hard data can help confirm or qualify the survey results. Survey results can be gathered in areas where qualitative input is needed and where hard data is simply not available. In most cases, the results of hard data and survey data corroborate each other; however Pakistani executives perceived a significant impact on competitiveness due to health problems in their workplace.

The incidence of HIV and malaria are relatively low in Pakistan but executives tend to believe these are significant problems. Pakistan has a very low incidence of HIV/AIDS. The country also has relatively modest rates of malaria. Tuberculosis has a higher incidence in Pakistan and probably does require priority attention among health authorities. The difference between perceptions by executives and the underlying hard data for HIV and malaria requires further investigation. However, it may be a reflection of the fact that there is a level of chronic illness in Pakistan that derives from poor hygiene, poor quality food, lack of access to clean water, Work undertaken by the World Food Program suggests that while Pakistan might not have a critical food crisis on its hand (an issue being debated in the light of the shortage of wheat flour in 2008), there seems to be evidence that food is not used correctly and that there is therefore a level of malnutrition that impacts on general health and thus on labor productivity.[9]

[9] WFP "Food Insecurity in Pakistan". This document reported the results of a food security analysis conducted from June 2003 to June 2004.

Table 7: Perceptions and Reality Regarding Health in Pakistan HIV and TB Incidence Are Low — But Executives Are Concerned

Health and Primary Education

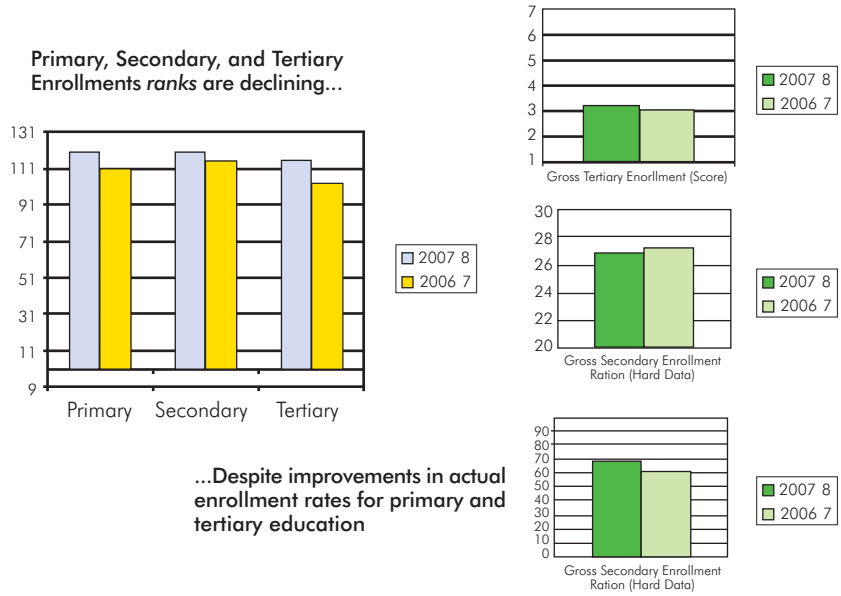


HIV/AIDS prevalence is the 25th lowest in the world. Primary enrollment improved, but it remains one of the lowest in the global ranking. Tuberculosis remains detrimental to business, as both ranking and score fell.

Source: World Economic Forum, 2008, J.A.A analysis

Table 8: Higher Education and Training

Primary, Secondary, and Tertiary Enrollments in Pakistan



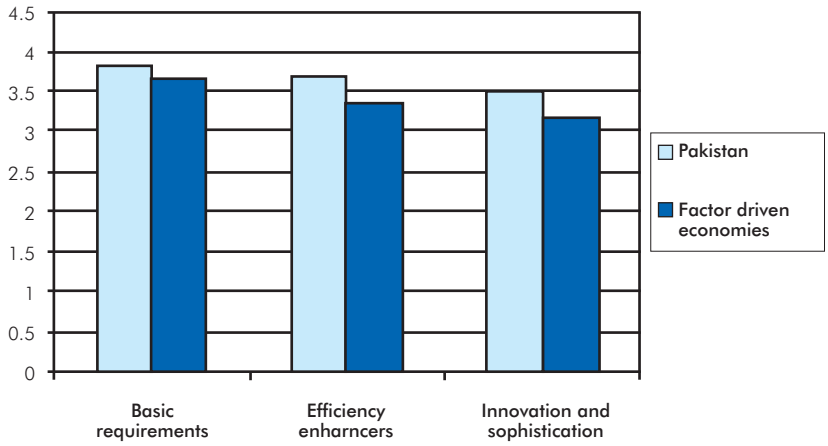
Pakistan is making modest improvements in student enrollments but other countries are improving more rapidly. Enrollment has generally been improving in Pakistan. However, these efforts need to be further strengthened and accelerated as other countries are improving their enrollments faster. Pakistan needs to extend education to all of its citizens so they can be productive in an ever more demanding global economy. Years of education also need to increase. The low marks for quality of education must also be addressed.

Pakistan fares well when compared to 55 "factor-based economies" which are at relatively low levels of development, with GDP per capita less than USD

$2,000; however it fares poorly when compared to its neighbors and comparator countries such as China, India and Sri Lanka. Many of these low-income countries are in Sub-Saharan Africa and may not be entirely comparable. The following graph shows Pakistan's results compared to the average for factor-driven economies in the three areas that make up the GCI Index:

Table 9: Scores for Pakistan and Low-Income "Factor Driven" Economies In the Three Major Subcomponents of the GCI Index

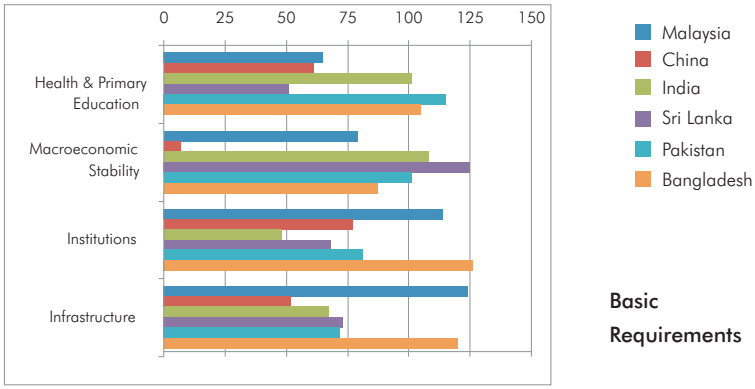
Figure 1.4.8-Scores (higher = better)
Summary of Pillar Groups - Pakistan vs. Factor Driven Countries



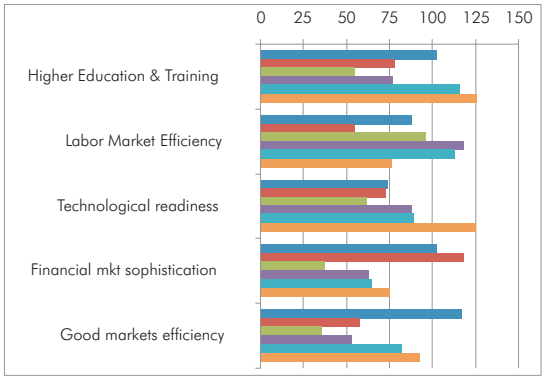
Pakistan's Rankings Relative to Comparator Countries

Pakistan ranks behind regional comparator countries such as China, India, Malaysia and Sri Lanka but ahead of Bangladesh. Compared to these neighboring economies, Pakistan does well in financial market sophistication (65), but it is the lowest performer in the group in health and primary education standings:

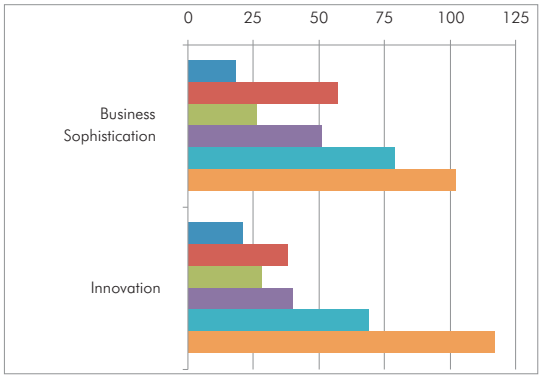
Table 10: Pakistan Compared to Countries of the Region



Basic Requirements



Efficiency Enhancers

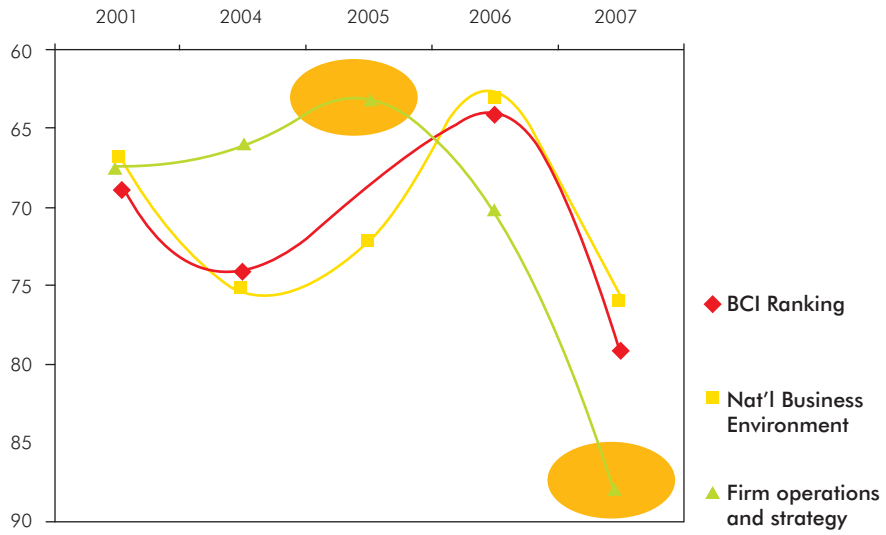


Innovation and Sophistication Factors

Decline in Business Competitiveness Index

There has been a noticeable decline in the micro-economic (business) aspects of Pakistan's competitiveness. The Business Competitiveness Index (BCI) rankings, which uses the GCI data and combine scores related to the (a) business environment, and (b) firm-level business and operations, has fallen in the past years, from 64th to 79th position. The fall in rankings is mainly driven by the latter (firm-level issues), as the following graph illustrates:

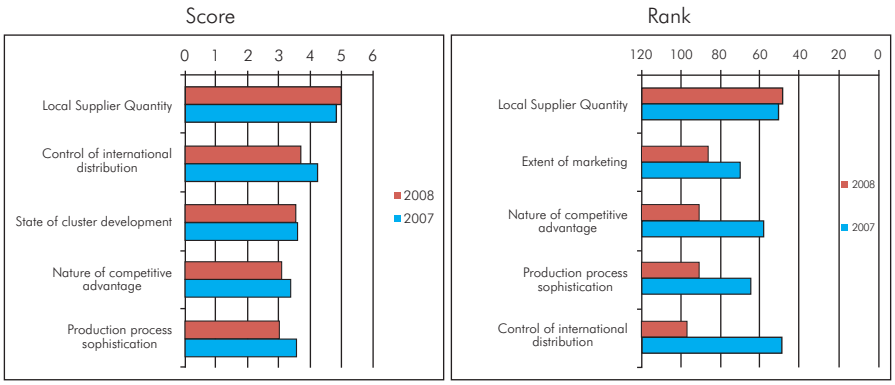
Table 11: Pakistan's Business Competitiveness Ranking Is Declining: Business Environment and Firm-Level Performance Fell Sharply



There are three possible reasons for the dramatic fall in business competitiveness rankings. The fall in rankings for Pakistani business strategy and operations reflects in part the true situation where Pakistani exporters of apparel, surgical instruments and sports goods have been struggling to gain or maintain market share. As Pakistani companies have been exposed to the competitive global market place more in recent years, they may also be beginning to better understand their sophistication relative to other global firms. Finally, the survey data of the business competitiveness index may be affected by the general downturn in perceptions regarding the business environment and perhaps greater pessimism about Pakistan's economy in general.

Table 12: Pakistan's Scores and Ranks for Business Sophistication

Pillar 11: Business Sophistication



Local supplier quantity has improved significantly in both scores and ranking. However, traditionally weakest sub-indexes in this pillar - particularly control of international distribution and the nature of competitive advantage - seems to be deteriorating.

Pakistan did poorly on Macroeconomic Stability but did well on Financial Markets. There is great concern in 2008 over increased inflation, increased government budget deficits and overall debt, which have been worsening since October 2007, when the GCI was last published. It is feared that the scores and ranks in this area are likely to fall further in next year's report. Among the causes are increased food prices and increased energy prices, a trend happening worldwide but one which particularly affects Pakistan.

Pakistan's strongest pillars are in sophisticated pillars such as Financial Market Sophistication (63) and Innovation (63). This suggests improvements and a certain level of sophistication in the modern economy while a gap exists between this modern sector and other sectors of the economy.

Technological Readiness improved across the board, led by a marked increase in mobile phone subscribers and internet users. Pakistan's internet penetration increased from 0.42% to 4%, moving it to 87th place up from 107th last year. Though there is still much to improve (such as broadband infrastructure), the results highlight Pakistan's increasing readiness to support sophisticated industries such as Information Technology, financial services, and similar knowledge-intensive industries.

For Infrastructure, the single greatest challenge is electricity supply, the deficit in which caused Pakistan to drop to 107 from 87 last year. The raw score fell to 3.14 from 3.52 the year before. Electricity was identified as the worst performing area among all infrastructure sub-index variables. It was also identified as one of the most problematic costs of doing business in Pakistan. This is confirmed ongoing power outages, which reduce output, make people less efficient and increase the per-unit energy cost for businesses that can afford back-up generators. Imbalances between supply and demand for electricity are causing both businesses and residences great inconvenience.

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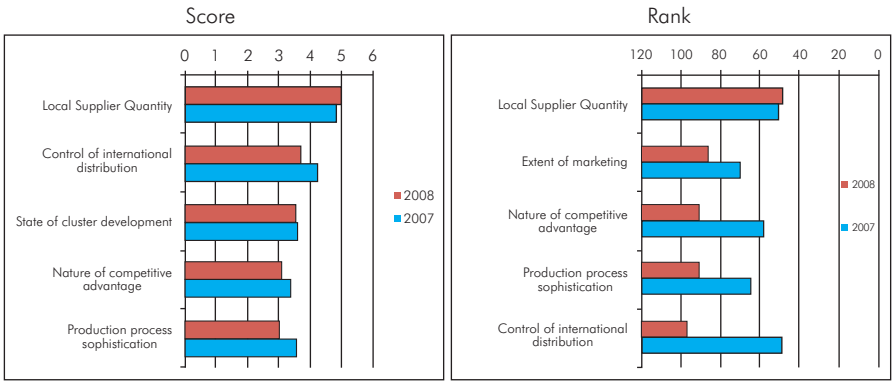

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II. Competitiveness Rankings Compared with Economic Performance

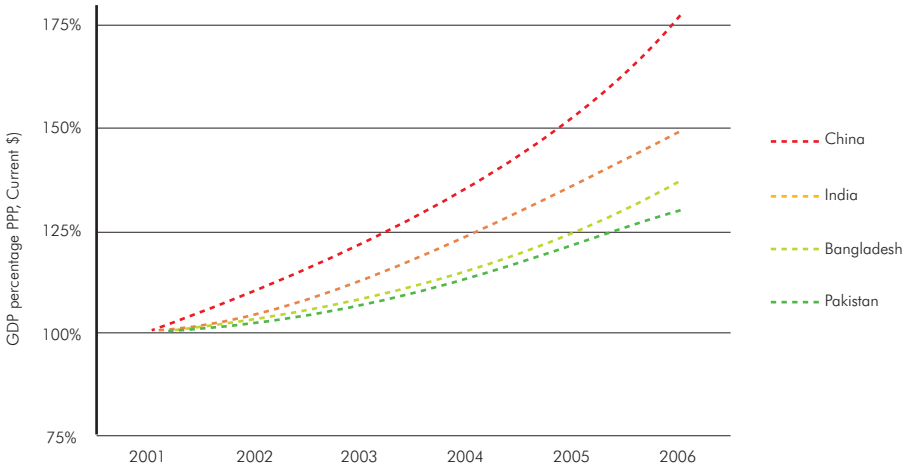
Economic Growth

The high economic growth in Pakistan experienced in previous years will not be sustainable unless the underlying weaknesses of the economy are addressed. GDP growth in Pakistan was relatively high between 2004 and 2007, and during the year covered by this Report[10]. However, growth began to falter in 2007. This year the economy is slowing further in the context of higher energy prices, higher food prices and slower economic growth in the USA and Europe.

If economic performance was relatively good in previous years, why did the competitiveness scores not improve? One explanation may be that high growth was driven by factors such as domestic consumer demand, good harvests or inflows of external resources, especially capital. Meanwhile, many of Pakistan's key manufacturing industries still seem to be struggling with their competitiveness, the apparel and textile sectors being notable examples. This indicates there must be a sense of urgency in improving the pillars of competitiveness if growth is to be sustained in the long term.

[10] It is important to understand that the data received by the World Economic Forum is from national sources. By the time it is processed there will be a time lag from current events. CSF's Report therefore seeks to present a contemporary perspective but necessarily relies on data that is not immediately current.

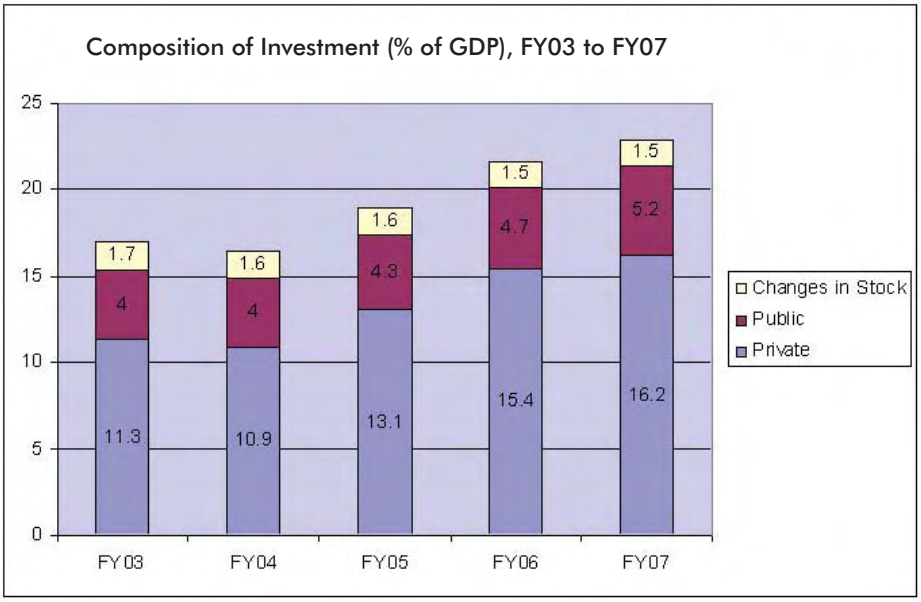
Table 13: Regional Growth In GDP Per Capita



Investment

Pakistan's mobilization of *private* investment surpassed 15% of GDP; if sustained it would bode well for future growth. Pakistan's overall Gross Domestic Investment has risen remarkably in recent years to a total of 23% of GDP. More importantly, *private* investment crossed the 15% of GDP level in FY 2006 and hit 16.2% in FY 2007. Foreign direct investment rose to 3.1% of GDP. These private investment levels are important objective measures of the business environment and, if they continue at these levels, will augur well for Pakistan's future growth. Private investment tends to be particularly productive in generating future economic output.

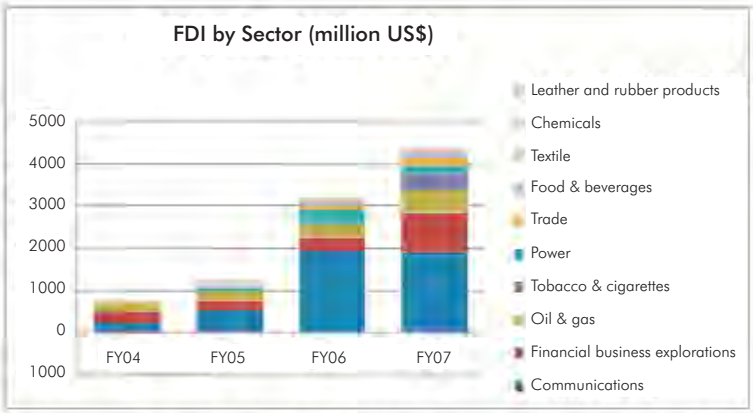
Table 14: Public and Private Investment in Pakistan as Percent of GDP



However, foreign direct investment (FDI) has mainly gone into sectors that are either capital intensive or that employ highly educated people. As shown in the table below, most FDI is going into communications, finance and oil and gas. Despite Pakistan's dependence on apparel and agriculture, relatively little FDI is going into industries in these sectors or in other employment-intensive sectors. Pakistan should look for opportunities to improve its competitiveness in the apparel and agriculture sectors. Many foreign investors are pursuing a "China plus One" strategy by which a firm wants to invest in China plus another country to diversify any financial risk, not wanting to put all their eggs in one basket. Furthermore, wages are increasing in China (although labor productivity is also increasing) while its currency has also been increasing in value. Pakistan should actively exploit the opportunities in light manufacturing.

Table 15: Foreign Direct Investment in Pakistan by Industry Sector

Evolution and Composition of Pakistan's FDI



(Tele) Communications and Financial services have led the increas in FDI. De-regulation in these sectors helped increase the flow of FDI But FDI is not following as much to agriculture and light manufacturing FDI has not been labor intensive and job-creating for the masses

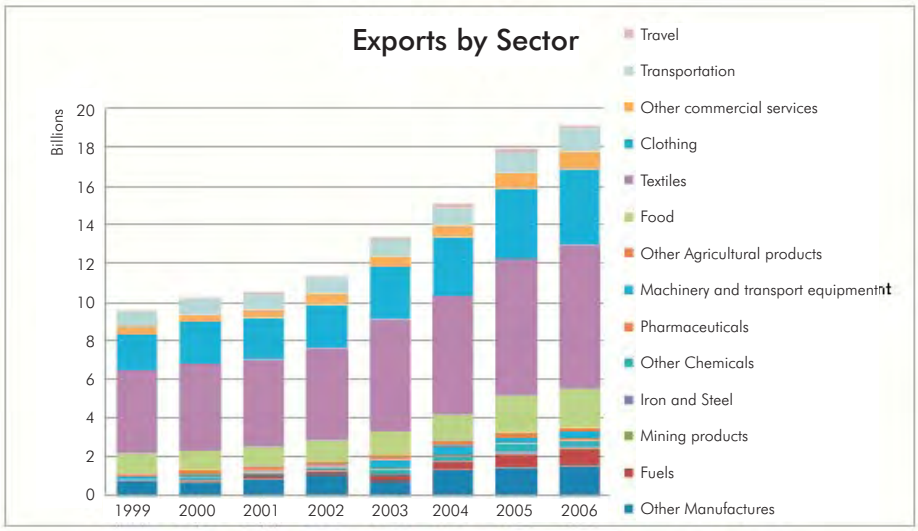
Source: Pakistan Economic Survey, 2007
CSF/JE Austin Analysis (2008)

J.E. Austin Associates, Inc

Exports

While the trend has been positive, Pakistan is highly dependent on exports of textiles and clothing. The expiration of quotas should have led to a higher growth in market share for Pakistan than has been the case. Instead, China and Bangladesh have been the main beneficiaries. However, Pakistan has increased its exports of some agricultural products such as mango.

Table 16: Composition of Pakistan's Exports by Sector



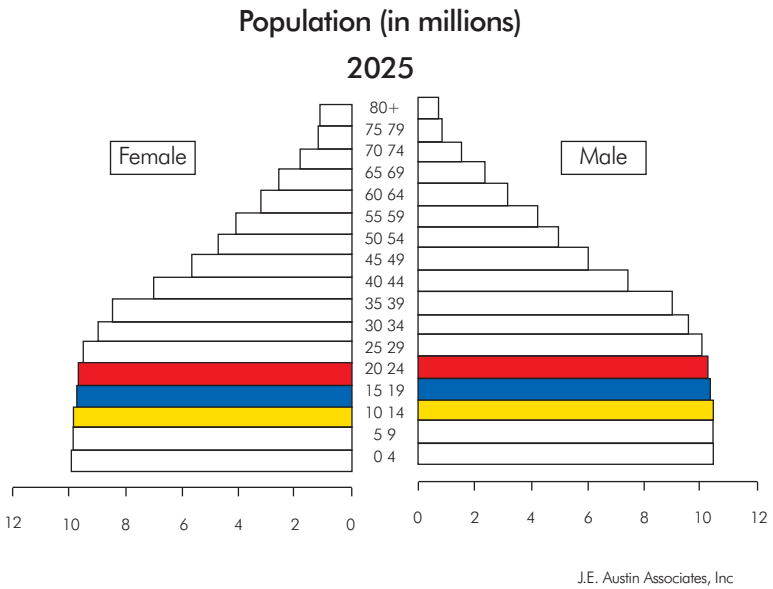
The above review of economic growth, private investment and exports vary somewhat from the less optimistic picture painted by the GCI. While Pakistan has made notable strides, the underlying determinants of long-term competitiveness have yet to be addressed. This may call into question the sustainability of the impressive recent economic performance. This should serve as a call to policy makers to redouble their efforts to address these underlying problems — especially those related to human resources, education, labor markets, macroeconomic management and improving the overall business environment. The most important competitiveness challenge, according to the Global Competitiveness Report, is that of human resources. The PCR therefore now turns to analyzing this challenge in greater detail.

The Human Resources Challenge

The huge growth of new entrants in the labor market underscores the importance and urgency of addressing the human resource issue. First, economic growth must be maintained if all of these new entrants are going to find jobs. If growth falters, many new entrants will be frustrated and upset at the lack of opportunities and this will in turn have political consequences. Second, urgent attention must be given to making young people more productive and to prepare them for a productive employment. The education sector must be responsive to the rapidly evolving needs of the labor force. Third, Pakistan's strategy for workforce development will require inter-ministerial coordination. Fourth, labor market policies will also have to be addressed. If a successful education, training and labor market policy can be implemented, these new entrants can be turned into Pakistan's greatest asset as it will help propel high levels of economic growth.

Table 17: The Human Resource Competitiveness Challenge

There Will Be Massive Numbers of New Entrants to the Labor Force
Will They Find Jobs? Will They Have the Right Skills?

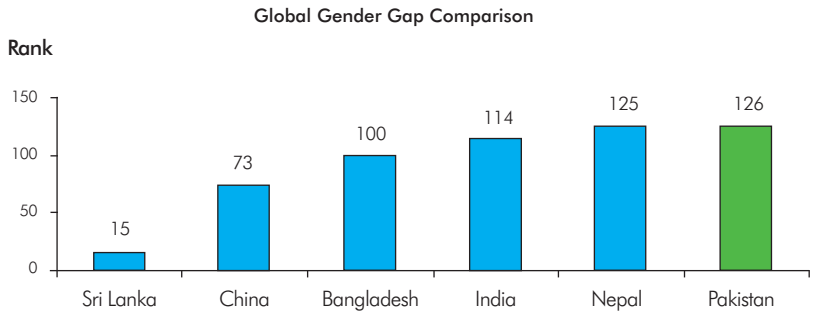


Pakistan is under-utilizing half of its people and has a serious gender gap compared to other countries including other Islamic countries. Pakistan ranks near the very bottom at 126th place (out of 128) with regards to the gender gap. The gap between male and female educational achievement, literacy, participation in the labor force and other indicators is more notable in Pakistan than in other neighboring countries such as Bangladesh which ranked 100th. Although not pictured in the graph below, Malaysia has done a much better job in educating women and has found ways for them to participate productively in a modern economy in ways appropriate to its Islamic culture. Only Chad and Yemen scored lower than Pakistan.

Table 18: Pakistan's Competitiveness: The Gender Gap Challenge

The Gender Gap: Pakistan and Neighboring Countries

- Half of Pakistan's labor force is severly under-utilized
- Pakistan ranked 126 out of 128 countries in the gender gap (only chad and Yemen scored worse)



Source: World Economic forum's Global Gap Report

III. Building Competitiveness Sector by Sector

The following case studies are drawn from the Competitiveness Support Fund's research activities over the last 12 months. The aim of these studies has been to focus on the various problems discussed above and to enable the economy to become more competitive. CSF's work is action-oriented and the work activities and action plans undertaken have ranged from work in horticulture and fisheries to telecommunications and women's access to finance. These short case studies presented below provide an *illustration* of only some of the competitiveness concerns that will need to be tackled to improve Pakistan's WEF rankings.

Building Competitiveness in Agriculture, Fisheries and Food

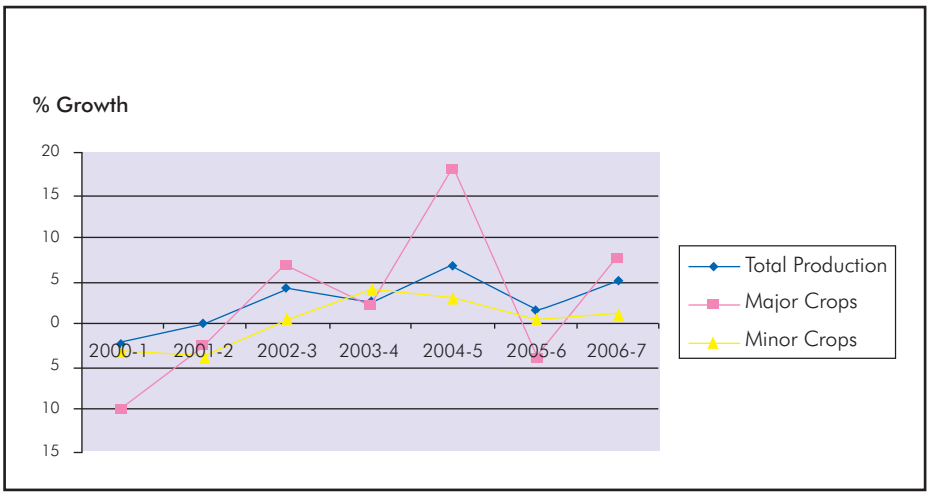
Pakistan's economy has grown and prospered to the extent it has on the basis of an exceptionally bountiful endowment of natural resources. While it is a cliché that factor-based economies often do worse than those without good natural resources, it nevertheless seems extraordinary that Pakistan has done quite so badly. The country has one of the largest river systems in the world (the Indus) and the name of its premier province, the Punjab, is translated as "five rivers". Such a river system provides hydro-power. Despite areas of desert, for a large central part of the country excellent alluvial soils accompany the rivers. Monsoon rains bring more water, and for much of the year the sun shines. Forests in the north provide wood, deserts provide oil and coal deposits and there is a 700 kilometer coastline that is a source of fish. Highlands allow grazing of sheep and goats and the planting of orchards. Lowlands allow cattle and dairy production and the cultivation of wheat, rice, vegetable and other horticultural produce. Despite all this, Pakistan's agricultural economy is in the position of importing wheat, edible oil and fruit juice, even dates, and is failing in the key area of cotton production for textiles.

Agriculture, agribusiness and food manufacturing under-perform in Pakistan in almost every respect. The sector has been under-invested for a long time. There is no question that the land tenure system in Pakistan is a constraint to agricultural production. However, there is no short-term solution for this issue. Nevertheless, land title cases awaiting judgment must be expedited. If the transfer of land from inefficient holders to those willing to make investments in agriculture or industry can be improved, then so will output from this resource.

Detailed management of agriculture is by the provinces. Provincial support systems for agricultural and livestock production require an overhaul. Whatever the difficulty of implementing extension services, a mechanism has to be found to deliver modern technical solutions to farmers. This includes the provision of credit, crop insurance as well as pure technology.

Government at all levels must ensure that its functions facilitate the use of agricultural raw materials efficiently. Considerable success was found under the last government with a task force approach to horticulture. This could be the way forwards. Agriculture and food and fisheries must be looked at holistically with the necessary action points to be tackled immediately. Agricultural production must be considered in terms of its use as a raw material for processing – the industrial side of food production is considered separately below.

Table 19: Agricultural Performance 2001-2007: Major and Minor Crops



Pakistan's agricultural performance has been highly erratic

Source: Pakistan Economic Survey (2000-7). J.E. Austin analysis (2008)

With regard to crop-based food goods, Pakistan's productivity is low. If Pakistan was competitive the country could be the food basket of the region, supplying most of the Middle-east and Gulf States based on guaranteed "*halal*" items. Some horticulture products such as mango and kinnow (a variety of mandarin orange) are exported, but for example, 50% of the apple crop is wasted while apple pulp is imported from Iran.

Wheat is a staple crop and could be produced to a world class standard in southern Punjab and northern Sindh. But yields are considerably lower than the average for neighboring countries with similar agronomic conditions. Costs per

hectare of wheat are among the highest in the region. Pakistan may lose a high proportion of its wheat grain in the post-harvest storage, transport and processing system. The result is the need to import wheat at currently high world prices.

Calculation of the wheat flour supply demand balance by CSF confirms that there is a longstanding deficit in wheat supply. However 2007-08 was not a particularly bad or unusual year and indeed the deficit appears to be on the low side of the range. This finding emphasizes that the crisis in flour supply was a result of mismanagement and distortions in the market rather than a problem of agriculture *per se*. Overall, while GOP policies have in the long run been fairly successful in balancing the needs of wheat farmers with those of consumers (especially the poor), the entire food supply situation has become less competitive and in need of restructuring.

Industrial crops are very important for Pakistan's competitiveness in a variety of industries. Cotton and textiles account for about 60% of Pakistan's GDP. Cotton yields are not keeping pace with the rest of the world (especially China). This is because Pakistan has failed to adopt high yielding cotton ("Bt") varieties and indeed lacks a system for maintaining the seed lines for such specialized varieties. Cotton gins have been allowed to fall into disrepair from failure to re-invest in or to maintain machinery, and there has been an overall reluctance to keep abreast of world innovations in textiles and clothing manufacture. With regard to the processing sector, there is an urgent need for a restructuring of the gins and textiles mills. Unless this is done, the industry in Pakistan will collapse in the face of competition from elsewhere. Sugar production is another sub-sector of agriculture where there is over-capacity of inefficient sugar mills and refineries, again leading to closures and a failure to develop the potential of the industry.

Turning to livestock, Pakistan may be the fifth largest producers of milk in the world; yet there are limited exports dairy products and little meat. The processed milk sector is high cost and with a small domestic market. For fisheries, Pakistan was banned by the European Union from exporting fish to European destinations

in 2007 because of the poor management and lack of hygiene at Karachi Fish Harbour. The issues at the KFH, like so many other areas of industry in Pakistan, are not essentially technical but managerial and related to business practices. This is where Pakistan has failed often in the WEF rankings.

Wheat, sugar, vegetable oils and other agricultural goods are raw materials. Pakistan must move rapidly from considering itself an agricultural country to seeing itself as one of the world's larger manufacturers of food. Pakistan should be exporting high-value mango and kinnow, but it should also be able to provide itself with fruit juice and to export premium quality meat and dairy products, especially to the Muslim world that requires *halal* foods.

Food manufacturing (including dairy, meat, fish and horticulture-based products) goes hand-in hand with many of the elements considered vital in this. Food processes cannot be built on poor quality water, high levels of wastage from poorly cultivated and handled raw materials, failure of the electricity supply, lack of cool chains and delays at the port or airport. By the same token, a country that can develop a vibrant food processing industry can, because of its complexity and the requirement for the highest of all management and manufacturing standards, become successful in other areas.

Building Competitiveness in Manufacturing

Light manufacturing is critical to the overall growth and competitiveness of Pakistan and is especially important for balanced growth as it is relatively labor-intensive. This sector is by far the largest component of manufacturing and accounts for the highest share of industrial employment and exports. With the expiration of the international quota system in 2005, the ability of countries to compete in apparel manufacturing on the basis of such quotas was largely eliminated. Manufacturing became less dispersed and concentrated in countries like China, Bangladesh and Pakistan which had elements of the entire value chain present in their own country. China and Bangladesh have increased their

market share while the impact for Pakistan has not been as positive as might have been expected. Improving the competitiveness of the textile and apparel sector will be critical to Pakistan's overall competitiveness in the coming months and years.

The results from other light manufacturing export industries are also instructive. It is clear that the sports goods sector is coming under continued pressure to certify compliance with global standards for consumer safety, product quality and zero tolerance for child labor. Technological modernization also provides both threats and opportunities for the Pakistani sports goods industries as evidenced by the increasing trend towards machine-made rather than hand-stitched soccer balls. Unless the industry migrates to new growth areas, it will face continued pressure.

The surgical instruments industry is also an excellent case study enabling one to understand the competitiveness challenges facing Pakistan. The surgical instruments industry has grown to become a large export-oriented industry producing a diverse range of instruments using relatively advanced technology. Pakistan exported over 70% of its US$ 219 million production. Some 2,200 firms employ an estimated 110,000 people, although estimates vary. The industry produces about 110 million instruments each year with most of the production centered in the Sialkot area.

About 43% of the industry's exports are to the US and Germany, leaders themselves in exports of surgical instruments. However, Pakistan's share of the US$100 billion global market is quite small only 0.17% -- less than one-fifth of one percent of the global market[11]. Pakistan is justifiably proud of its participation in the surgical instrument market, but it must face the fact that it has only a miniscule and barely observable share of that market. Furthermore, while the global market grew at 10% per year between 2000 and 2004, and continues to boom with expanding markets in Asia and Africa, the Pakistani industry only grew 5% during this time. Surgical exports as a share of national exports were

[11] SWOG report

about 1.3% of Pakistan's total exports in the mid-2000s — exactly the same share as 1991.

The industry produces over 10,000 different types of surgical instruments broadly across two segments: disposable and re-usable instruments used mainly in the operating rooms. Most production processes are manual or not technology intensive. Facing increased cost pressures, the cluster is characterized by severe price competition. Firms are fighting to maintain margins even while raw material costs are increasing. Due to the absence of a specialized research and training institution feeding the Sialkot industry, the current work force in the sector comprises generations of families that pass on skills, or apprentices. Due to the mostly informal nature of the industry, there is also a lack of any formal on-the-job training.

Finally, most firms do not have professional management, especially at the middle level, resulting in poor planning and execution of operations.

According to industry estimates[12]. strategic interventions in the industry could potentially bump exports up from USD $105 million in 2007 to USD $1 billion by 2015, if the Pakistani industry repositioned itself and targeted a 20% share of advanced high value added products from the current share of 1%. Pakistan exports across all major markets in the world, including the developed markets of the US and Germany. This implies an established distribution network, and existing awareness of Pakistani surgical products, which can be leveraged as the industry moves up the value chain. There have been few proactive efforts to significantly change its position from low-price to high value added position in the global markets. The industry itself must come together, take stock of its current situation, travel to centers of excellence, secure the advice of global industry experts and begin to design and implement new strategies that build on current strengths that are in keeping with market trends and technology developments. The surgical instrument industry, like so many industries in Pakistan, will need to learn not only how to do things better but how to do better things.

[12] SWOG report

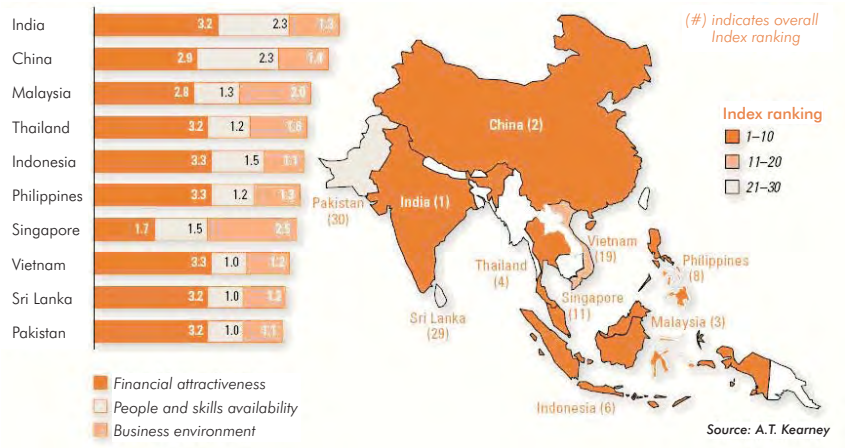
Building Competitiveness in the Service Sector: The Case of Off-shoring

Pakistan has missed the boom in "off-shoring" while India has moved ahead. Thanks to the telecommunications revolution, the last 20 years has seen an upsurge in the export of service jobs to emerging economies. These include software development, business process outsourcing, call centers and many other functions. Pakistan, with its availability of English-speakers and diaspora connections, should have been capitalizing on this trend. At the moment, the IT Professional Services industry employs over 110,000 people in Pakistan, but only about 2,000 are said to be working directly in the outsourcing sub-sector.

Pakistan did not rank highly as an off-shore destination in the A.T. Kearney 2007 Global Services Location Index (GLIS)[13]. India scored highest in all three categories with Pakistan being the last (29th and 30th respectively). The report identifies two reasons why Pakistan has not attracted the level of BPO investment that some of its regional competitors have.

Table 20: Pakistan's Rank as a Destination for Outsourcing

Figure 4.5.4



[13] Offshoring for Long-Term Advantage, A.T. Kearney, 2007 – Scores are based on a 40:30:30 weighting system measuring financial attractiveness, people and skills availability, and the business environment respectively.

Pakistan has the potential capability to compete in off-shoring industries. However, its relative position to other competitors and the cost-benefits are not clear, deserving closer examination. Pakistan, being a relatively late entrant into this market, will face an uphill battle in competing with India, China and other countries in Southeast Asia.

ICT is also an important enabler which can improve the productivity of firms, clusters, industries, and sectors. ICT improves value chain efficiencies in ways that improve even agricultural livelihoods. The Rural Kiosk Machine [14], for instance, is an initiative sponsored by the Ministry of Information Technology. Important information, such as relates to fertilizer application and chemical usage can be accessed in any local language (including Urdu) using an audio and video interface. The machine can be updated remotely via a wireless or wired network and store information ranging from maps to market prices. A working prototype is currently installed in the University of Arid Agriculture Rawalpindi. Partnership with Growers Associations in expanding these models could help transform Pakistan's agriculture.

ICT can also help link farmers to domestic, regional and even international markets. The South African Mango Growers' Association [15] developed a web portal specifically designed to assist mango producers and mango processors to link up with international value chains and there is no reason why Pakistan could not do the same. Web portals can also attract consumers who were previously unaware of the unique products and services being offered.

ICT can also help improve logistical systems, helping to reduce post-harvest loss and get products to market faster while coordinating supply with demand [19]. Bar coding provides numerous advantages including the ability to provide Chain-of-Custody certification.

Much needs to be done to improve the ICT sector. First, it is important to improve access as 97% of PC-Internet connections are still via dial-up (ITU, 2007).

[14] Kashif Sattar, *A sustainable model for use of ICTs in rural Pakistan,* International Journal of Education and Development using ICT, Vol. 3 No. 2 (2007)
[15] http://www.mango.co.za/

Pakistan needs a nation-wide fiber optic network or Broadband over Powerlines (BPL), and WiMAX wireless connections. Some countries have also implemented "Universal Support Funds" to encourage the extension of telecommunications services to rural and isolated areas. Successful models of this exist in India, Bangladesh, Chile and Peru.

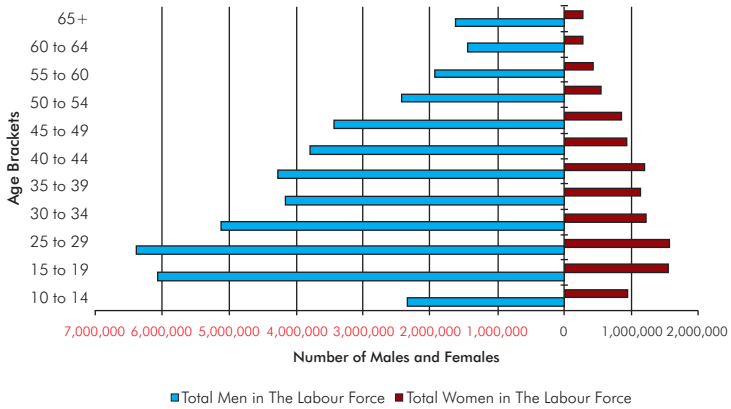
Building Competitiveness: Enabling Women to Access Finance [16]

Investing in women's capabilities and enabling women to contribute to the full extent of their capabilities will have a critical impact on competitiveness in Pakistan. Pakistan will not progress economically and socially unless women are a large part of the solution. The challenge of engaging women in Pakistan continues as only modest gains have been obtained in recent years. The scale of this challenge is enormous. Pakistan is the sixth most populous country in the world and has the second largest Muslim population in the world. With a population of 167.2 million[17], Pakistan is home to 81.6 million girls and women of which two-thirds (67%) live in rural areas. Approximately 40 million (24%) Pakistanis live below the national poverty line. Pakistan is a low-income country with unevenly distributed access to economic opportunities or basic services. The chart shows that the proportion of economically active women in Pakistan is very low.

[16] This case study was undertaken jointly by CSF and ShoreBank International for USAID, "Access to Finance to Women Challenges and Opportunities", Islamabad, July 2008
[17] The Economists Intelligence Unit 2007 estimate for 2008

Table 21: Distribution of Total Labour Force in Pakistan by Gender and Age 2008 Estimates

(Based on Labour Force Survey 2005-2006)



Pakistan fares poorly in other human development indicators with regard to its female population. The Human Development Report 2007/8 UNDP ranked Pakistan 136th amongst 177 countries in terms of Human Development Indicators.

Pakistan cannot achieve its full potential unless investments are made to increase women's capabilities and to ensure that these capabilities are fully deployed. Access to finance is one avenue by which women can be supported and encouraged to be engaged more directly in economic affairs and provide them a means by which to better manage their own lives and the lives of their families. The benefits of access to finance for women are often not apparent in short quick jumps in standards of living, but are quite substantial when access to services is available over periods of time.

Pakistani women receive the vast majority of their services currently through informal and undocumented sources – informal committees or moneylenders.

[18] PMN. MicroWATCH Issue 6: Annual (Jan – Dec 2007)

It is however possible to estimate the broad dimensions and market contours for women from existing sources of data. Out of the total population of 167 million, roughly 47 million are women (females above the age of 16). The largest segment is women working within their households who are outside the documented workforce. There are 38 million women in this category alone. Other broad market segments include women who may want access to small loans for personal use (22m) and even smaller number potentially for consumer credit (1.3m) or business loans (0.8m).

Table 22: Market Penetration of Formal Financial Services for Women

Financial Service	FinancialServices Outreach of Women			Estimated Market Potential	Peneration
	Microfinance Institutions 1	Traditional banking sector and Non-bank financial institutions	Total estimated outreach		
Credit	0.7 million (50% of all active micro-credit clients)	0.2 million (3% - 5% of total loans outstanding)	0.9 million	22 million	4%
Savings	0.5 million (35% of all deposit holders with MFIs)	2.8 million (17% - 25% of total deposit accounts)	3.3 million	35 million	9%

Efforts to meet these broad demand estimates are quite modest to date. Penetration of the market for credit is estimated at 4%. The penetration in savings is slightly higher at 9%. Women appear to demand more savings services and the relatively well-off women are somewhat better served by existing providers. Expansion of services has picked up more quickly in recent years for the lower income strata driven by the three-fold increase in microfinance institutions. It is likely that the greatest penetration for women in the coming years will be driven by the largest and fastest growing microfinance organizations.

Unfortunately Pakistan as a whole still lags behind the South Asia region in terms of reaching women with financial services. This is partly because Pakistan has been a late starter in this field. Most major microfinance organizations in the subcontinent have targeted women as a result of their social mission. Driven by this commitment and orientation, organizations have sought and found innovative techniques to work around the cultural and socio-economic hurdles in accessing women. In South Asia the percentage of women clients is over 90% in most countries. Pakistan's current trajectory has hovered at about 50% and improving this percentage offers a real opportunity to affect women's access in the coming years.

Access to basic credit and savings services for women should be a central economic development policy objective for Pakistan. Credit is among the key services, but savings services are likely to be much more widely in demand among the general population. Women in particular have a need for savings services. Savings allow individuals and households to safely protect their assets and plan for future. Credit is helpful more selectively – to those individuals who have a clear investment opportunity, or who prefer to have access to large cash lump sum on the onset to meet personal or consumption needs and pay it off in the future.

Recommendations about how to develop this sector include regularly monitoring and publicizing women's access to basic financial services and investing equity, loans and grants into microfinance organizations which are already fast growing and profitable to encourage these organizations to retain and further deepen their focus

on female clients. In addition it will be necessary to provide female entrepreneurs with a range of business support which includes access to tailored credit and finance.

IV. Conclusions

Pakistan's competitiveness ranking is among the lowest third of countries in the 2007-2008 Global Competitiveness Index. The economy has not been improving and its competitiveness ranking has stagnated. While Pakistan's raw score has improved modestly, its ranking among countries has not moved forward. Other countries are improving their competitiveness at a faster rate than Pakistan.

Pakistan's low competitiveness score shows particular weakness in human resources. Much of Pakistan's poor showing is explained by very low scores related to basic education, health, higher education, training and low labor market efficiency. These often translate to poor organization and management at the enterprise level. If the Government of Pakistan seeks to improve the competitiveness of the country, it will have to focus priority attention in these areas. Workforce development is a key to economic growth in Pakistan. Within the work force if women continue to be excluded there will be no possibility for Pakistan to catch up with its neighbors. The economic empowerment of women, e.g., with regard to access to finance, is a necessary condition for a more competitive economy.

The large and unstoppable army of youthful new entrants to the Pakistani labor market will make it even more urgent to address the human resource competitiveness deficiency. The demographic analysis presented in this report showed the expanding base of young people who will be marching in ever larger numbers into the labor force. The economy will have to grow at more than 6.5% annually to absorb the youth population in work. Unless the education, training and labor market issues are addressed, Pakistan will face difficulties in accommodating these new entrants and making them productive. Alternatively, if they can become highly productive, they can be transformed into a demographic dividend that can propel Pakistan's future economic growth.

The business environment still limits competitiveness at the micro-economic level with low scores for macroeconomic stability and the unreliability of the energy supply. Another challenge for the Government of Pakistan is to create a world class business environment capable of stimulating business growth, mobilizing domestic investment, attracting foreign investment and creating an operating environment conducive to efficient operations. Pakistan also received low scores related to a weak judicial system and the lack of a commercial court system.

There is a growing perception that business competitiveness at the firm level is getting worse in Pakistan. There was a major reduction in the scores related to the Business Competitiveness Index. This showed a drop in the quality of the business environment (noted above). It also noted an even greater decline in the scores related to the quality of firm-level strategy and operations. The drop in score, mainly reflecting the Executive Opinion Survey[19], may indicate that various export industries, such as apparel, textiles, sports goods and surgical instruments are struggling. It may also show that as Pakistani firms become more internationally focused and more aware of the global competitive environment, they are adjusting their perceptions of the sophistication of their own industries in competing with their counterparts in other countries. This raises the question of whether Pakistani firms can keep up with the global competition. Private sector leadership must develop and implement strategies for repositioning itself in global markets, perhaps through competitiveness initiatives which have begun to be undertaken in the dairy, marble and granite, gems and jewelry and other industries.

The Government and private sector leaders will need to give special attention to labor-intensive industries such as agriculture and light manufacturing—but industry case studies reveal real problems. One issue that has been emphasized by CSF in various studies is the need for a focus on quality and standards. Consistent low quality across industries means that often Pakistan is excluded from valuable export markets. Each industry needs to confront its particular opportunities and constraints and will need to formulate strategic initiatives. These will indicate the most pressing policy and institutional constraints preventing them from implementing their strategic

[19] It should be emphasized that the EOS reflects respondent's perceptions of the situation. It is NOT a scientific or objective analysis of the situation that may indeed differ in respects from perceptions. Nevertheless, the way people see things is an important element in overall future behavior.

initiatives. Given Pakistan's decentralized structure, competitiveness constraints will have to be addressed at the provincial level governments.

A comprehensive competitiveness strategy will help Government prioritize and address the challenges of slowing economic growth, high energy prices and high food prices. This Pakistan Competitiveness Report recommends that the period of political transition in 2008 be used to develop support for a Pakistan Competitiveness Initiative in 2009 that would receive broad political support and that would involve the "triple helix" of Government, private sector and education sector leadership. Such a Pakistan Competitiveness Initiative would help gather consensus around a broad agenda of economic initiatives that would address the challenges presented above and prepare the path for sustained economic growth in the future. The Pakistan Competitiveness Initiative would also set in motion a series of industry competitiveness initiatives, based on the successful pioneering work that has been undertaken in dairy, marble and granite and gems and jewelry industries, among others. Implementation during 2009-2011 would have the additional effect of advancing Pakistan from the lower one-third to the upper half of countries ranked in the Global Competitiveness Index while helping to ensure strong economic growth and poverty reduction.

Building competitiveness will also require significant work by the governments of each of Pakistan's four provinces: Punjab, Sindh, Balochistan and NWFP. Given the federal structure of Pakistan, building competitiveness necessarily requires that each of these four provinces must take the lead in designing and implementing competitiveness strategies that are tailored to their unique economic circumstances and opportunities. As Pakistan implements a more decentralized approach to local governance, it is also necessary to address competitiveness at the local level. One can expect to see local economic development councils emerge in Pakistan as things evolve at the district level. In the meantime, each province can begin by benchmarking its current economic competitiveness, identifying constraints and developing their own unique visions and strategies. In early 2009, the Competitiveness Support Fund will again benchmark Pakistan's

competitiveness and provide input to policy makers and business leaders. This will enable those steering the economy to monitor the ongoing progress of Pakistan's competitiveness amidst new challenges. If Pakistan's competitiveness improves, higher rates of growth can be achieved, employment will be generated and poverty can be reduced to the lowest levels in Pakistan's history.

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