



# Pakistan

## Economic growth challenges extremism

Pakistan's economy is booming, despite going virtually unnoticed in the world coverage of the country's tumultuous troubles in recent months.

While international attention has focused on the battles between the government of President Pervez Musharraf and Taliban insurgents in the tribal lands of the North-West Frontier Province, foreign direct investment increased by \$2 billion in the financial year just ended.

Economic growth has averaged 7% in the past four years, and, significantly, in the same period development expenditure has risen by a massive 155%, from \$2.5 billion to \$6.5 billion.

The federal budget for this year continues to emphasize development expenditure for transport and housing and other areas aimed at improving the quality of life for the lowest-income groups. The view of Pakistan's leading capital markets firm AKD Securities is that this "should accelerate employment and personal income, while laying the foundations of accelerated infrastructure improvement."

The challenge for the administration is to ensure the effective utilization of this expenditure through improvements in implementation, transparency and accountability.

While economic growth has been buoyant, a series of political crises have, in the eyes of many international observers, put the continued leadership of the pro-Western president in doubt and placed a question mark over the stability of the world's second-largest Islamic nation.

The country's lawyers led mass demonstrations protesting President Musharraf's suspension of Chief Justice Iftikhar Muhammad Chaudhry and this apparent widespread public unrest continued until the president reinstated him in July.

At the same time, Taliban insurgents and al Qaeda terrorists across the Afghan border increasingly infiltrated Pakistan, further challenging the president's authority.

Then rebel gunmen attempted to assassinate the president by firing on his plane as it took off from a military airfield, while militant mullahs and their radical fundamentalist student supporters took hostages and attacked troops, laying siege to the Red Mosque in the center of Islamabad.

International consternation at these developments was such that some analysts expressed fears President Musharraf might lose power and the country's nuclear weapons might fall into the hands of Islamic extremists.

Those closer to Pakistan's economic realities, however, find these challenges to the government's authority less alarming. They emphasize that since the president took control of the country in 1999, Pakistan has enjoyed greater administrative stability and economic success than at any other time in the 60 years that have elapsed since independence from Britain in 1947.

The current administration has restructured the tax system, trade and tariff regulations, and banking and financial sectors. It has accompanied these reforms with deregulation, liberalization and a vigorous and successful program of privatization and fiscal transparency.

Pakistan's middle-class intellectuals and international observers may bemoan the current lack of democracy, say the government's supporters, but the country's economic growth is now one of the fastest in Asia: it has attained a strong export performance, reduced its debt burden and achieved a comfortable level of foreign exchange

*(continued on next page)*



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## Privatization attracts foreign investors

**F**oreign direct investment in Pakistan has doubled to a record \$7 billion in the past four years. Today, there are more than 600 multinational companies operating in the country and benefiting from the economy's dynamism.

"Not a single foreign company has lost money from a business point of view," says Humayun Akhtar Khan, Minister for Commerce. "Oil companies, gas companies, consumer goods companies, pharmaceuticals, and information and communication technology companies are all taking advantage of the huge opportunities opening up here."

There has been extensive privatization of public enterprises. Of more than 160 public institutions that have returned to the private sector since 1991, most have done so during President Musharraf's administration.

Pakistan State Oil (PSO), the coun-

try's largest fuel marketing company, is in the process of privatization, having successfully transformed into a profit-making enterprise over the past six years. In that time, the company has invested PKR7 billion (\$115.9 million) in upgrading its obsolete gas stations and the rest of its infrastructure, while it has recruited fresh, well-qualified professionals.

"In 2001, there was only one computer in the head office," says Jalees Ahmed Siddiqi, chief executive of PSO. "Now we have a completely online environment and we have increased our professional staff from 16% to 54%. Our competition has increased from three companies to seven, but in spite of that we have increased our market share."

PSO has also announced record profits after tax of PKR7.5 billion (\$1.242 million), up by 33% over the previous year.

In the financial sector, international banks have been quick to take advantage of the successful privatization process. Until a few years ago, 85% of the sector was in the hands of the state and penetration was low, but this year

## Economic Growth

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reserves; the stock market has been buoyant; and domestic demand is sustaining the growth momentum.

"A major shift has occurred since the present government came to power eight years ago and drafted a blueprint that broke the bureaucratic licensing regime," says Nadeem Naqvi, chief executive of AKD Securities. "This unleashed the potential of the corporate sector."

As a consequence, gross domestic product has doubled to more than \$130 billion. A quarter of the population still lives below the poverty line, but this number has fallen by 10% since 2001 and the number of middle-class consumers has increased markedly.

"When people come here for the first time," says Humayun Akhtar Khan, Minister for Commerce, "they may expect to see long-bearded turbaned men carrying guns, and veiled women shying away at the sight of strangers, but they will see nothing like that in the main cities of Pakistan."

On the contrary, they will find a buoyant, modern business community utilizing the country's potential as a con-

duit for trade and building free-trade deals with its neighbors.

With federal and provincial elections, plus a presidential election to take place later this year, the business community is broadly confident that the country can maintain the stability and economic progress it has made in the past five years.

Pakistan is essentially a moderate country, says Khan. "In four elections between 1985 and 1999, the extreme right-wing religious forces were reduced in number." The country wants to be democratic and moderate, he says. It needs encouragement in this, and foreign investors are showing the way. "One day there will be no trouble in Afghanistan, and that's when Pakistan will be the route to Western China, Afghanistan and Central Asia."

Michael Knipe

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Standard Chartered and ABN Amro have acquired Pakistan banks; KASB Securities, one of the country's oldest investment banking brokerage firms, has become the partner of Merrill Lynch; and other international institutions are expected to follow them.

Muhammad Rashid Zahir, chief executive of the Saudi Pak Industrial and Agricultural Investment Company, reckons that the spate of acquisitions and mergers dominated by foreign banks will lead to enhanced competition in the banking sector.

Saudi Pak, which provides a range of project finance, equity investments and underwriting of public issue shares, has provided financing worth \$683 million to more than 800 industrial units in Pakistan since its inception in 1982. The company's asset base today is worth \$1.36 billion.

Saudi Pak was created to strengthen economic cooperation between Saudi Arabia and Pakistan, and the governments of the two Islamic states each have a 50% share. "The trickle-down of sustained 7% growth is benefiting ordinary Pakistanis, and this is

**"Unlike our neighbors, we have opened all our economic sectors without any restrictions, allowing repatriation of initial capital, profits, dividends and technical fees."**

*Zahid Hamid, Minister for Privatization and Investment*

*Bhit Oil Field, Sindh Province*



reflected in a 58% increase in per capita income, from \$586 to \$925 in the past five years," says Zahir.

Like the banking sector, telecoms, real estate, transport and consumer goods sectors are also attracting international companies. One of the elements behind this international invasion, says Zahid Hamid, Minister for Privatization and Investment, is that the government operates a level playing field for foreign and local investors and allows 100% ownership.

"Unlike our neighbors, we have opened all our economic sectors without any restrictions, allowing repatriation of initial capital, profits, dividends and technical fees," he says.

The growth in foreign direct investment, he adds, "shows that foreign investors are unperturbed by the political and religious agitation." ❖

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## Sixty years old and full of youth

As Pakistan marks the 60th anniversary of its birth as a nation, its hopes for the future lie in the youth of its people. More than 95% of its 164 million population is below the age of 64.

"This young and dynamic population is already fueling the consumer boom," says Zahid Hamid, Minister for Privatization and Investment. "The purchase of motorcycles is growing by 27% a year, cars by 21% and televisions by 8%. There is tremendous growth potential."

The late blooming of Pakistan's economy is reflected in the successes of the Hashoo Group of companies, headed by Sadruddin Hashwani, a fourth-generation Pakistani who started a cotton-trading business in the 1960s.

Today, the Hashoo Group is a conglomerate that owns nine hotels, including the Karachi and Islamabad Marriott hotels and the Pearl Continental hotel chain, as well as a range of companies engaged in oil and gas exploration and

production, information technology, mining, ceramics, pharmaceuticals and tourism.

With more than four decades of business behind him, Hashwani finds the Musharraf administration's policies encouraging. The president, he says, has the vision to bring enlightened moderation to Pakistan, and the world needs to know of the progress Pakistan is making.

Clive Webster, regional director of Marriott Hotels, Pakistan, says the company's strategy is to keep its hotels in top condition by making capital investments in the latest technology and by paying attention to detail.

Junaid Ashraf, general manager of the Pearl Continental, Karachi, the country's oldest five-star hotel, is overseeing a major redesign that will give the hotel a new 40-story building with 400 more rooms and first-class facilities.

Ishrat Husain, former governor of the state bank, says global investors, fund managers and financial institutions from all over the world are looking favorably on Pakistan and showing tremendous

confidence in its economy.

The Millat Group is one company that typifies the economic progress Pakistan is making. A market leader in the agricultural machinery sector, commanding half of all tractor sales, Millat was established in 1964 by a local family. Nationalized in the 1970s, it was privatized in 1991 when its employees bought it from the government. Since then, sales have more than trebled and they are

**"This young and dynamic population is already fueling the consumer boom."**

*Zahid Hamid, Minister for Privatization and Investment.*

delivering over 27,000 tractors a year.

"We are producing tractors that are perhaps the cheapest in the world," says Sikandar Kahn, Millat's chairman. "The biggest factor in our success has been localization — producing 90% to 95% of the tractor parts in our local industry."

Millat's aim now is to find a partnership that will enable the company to develop product research and development, to diversify into commercial vehicles and eventually to attain a global role. ❖



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# The China connection boosts optimism

Pakistan's ace card in its international economic affairs is the free-trade agreement with China that came into effect in July.

"Our friendship with China is mightier than the Himalayas and deeper than the Arabian Sea," says Zahid Hamid, Pakistan's Minister for Privatization and Investment, with understandably proud hyperbole.

The two countries have agreed to reduce tariffs on each other's exports and to open economic zones in each of Pakistan's provinces, where they will develop mutual projects in manufacturing and export-oriented sectors. They have also launched a five-year program to increase the volume of bilateral trade to \$15 billion, based on equal exports.

The trade deal underscores Pakistan's pivotal location. Situated between two giant neighbors, India and China, it can, through Gwadar Port in southwestern Pakistan, link Central Asia and China to the Persian Gulf and the Indian Ocean, onward to the Gulf States of the Arabian Peninsula, and still further to Africa,

South Asia and Europe.

Another of Pakistan's valuable economic cards is its mineral resources. The country has vast reserves of coal, zinc, lead, phosphates, oil and gas. From its natural reserves, it is producing 3 billion cubic feet of gas daily, while oil production per day is around 60,000 barrels. Amanullah Khan Jadoon, Minister for Natural Resources and Petroleum, says the government welcomes international companies to help exploit its mineral riches.

One such company with a long history of exploration and production in Pakistan is Orient Petroleum International Incorporated (OPII), a private enterprise that produces around 100 million cubic feet of gas, 2,500 barrels of oil and 60

tons of liquefied petroleum gas per day.

"In one of our fields we have hydrogen sulfide in the gas, so we extract sulfur as well and produce 60 tons of sulfur per month," says Anwar Moin, its chief operating officer.

Three years ago, OPII was transformed from a U.S.-based company into an offshore enterprise to give the company greater flexibility regarding the international areas in which it can operate.

OPII currently holds interests in 13 domestic fields, including five discoveries near the southeastern city of Mirpur Khas in the Sindh Province and five discoveries in the Khipro concessions, also in Sindh.

Moin says OPII plans to expand its oil and gas exploration and production activities worldwide through joint ventures. It is already active in Kazakhstan and is targeting Central and North Africa. "Here in Pakistan, we have a different approach. Since we have our base and expertise here, we acquire the block and then we might consider bringing in joint-venture partners." ♦

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## Where giving is a family tradition

One aspect of Pakistan not widely known in the West is the extent to which both new and old money oils the wheels of business and the economic well-being of the community at large.

The new money comes from leading companies' sense of social responsibility, while the old money derives from family businesses dating back to "before partition," which is how Pakistanis still refer to the 1947 division of Britain's colonial India into the Muslim state of Pakistan and the largely Hindu state of postcolonial India.

"When the government has failed to deliver, philanthropy has managed to get there," says Nadeem Naqvi, chief executive of AKD Securities, the country's leading capital markets firm.

He cites the 2005 earthquake as an example. "During the initial three months following the catastrophe, contributions to the President's Earthquake Relief Fund reached \$1 billion just through local donations, way before the foreign donor conference took place," he says.

One of Pakistan's leading philanthropic institutions is the Hashoo

Foundation, which was created in 1988 by Sadruddin Hashwani, chairman of the Hashoo Group, to maintain his family tradition of philanthropy.

Under the direction of his daughter Sarah Hashwani, herself a successful businesswoman, the foundation has just been restructured to bring under one umbrella three Hashoo Group philanthropic organizations: Umeed-e-Noor, which is committed to the welfare of children with mental and physical disabilities; Hoap, which addresses the needs of the underprivileged in marginal communities; and the foundation itself, which among many other activities operates schools for underprivileged communities.

The aim is to alleviate poverty and empower the underprivileged, with educational and social services that will enable them to be self-sustaining, says Ms. Hashwani. "I'm particularly interested in providing social enterprises that will help disadvantaged communities by providing a business model that is bene-

ficial and profitable," she says.

One such project is a marble-polishing program that provides vocational skills in a fully sustainable business utilized by major hotel chains. Another promotes organic-farm cooperatives in remote areas where 500 families produce 5.5 tons of honey and fruits, which the Hashoo Group's hotels buy and use.

The foundation has awarded scholarships to 795 impoverished out-of-school children since 1999.

**"When the government has failed to deliver, philanthropy has managed to get there."**

*Nadeem Naqvi, chief executive, AKD Securities*

"We have ongoing projects such as a spinal-cord injury program in the area hit by the 2005 earthquake, and a widows' livelihood program that provides a widow with goats to provide milk, both for her own family's use and to generate income," says Ms. Hashwani.

The foundation is also providing hospitality training for 318 women that will equip them with life skills and give them access to employment opportunities. ♦



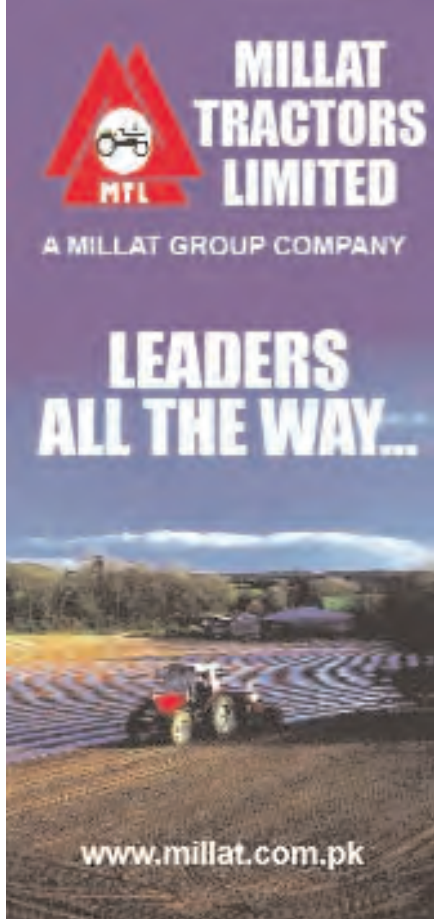
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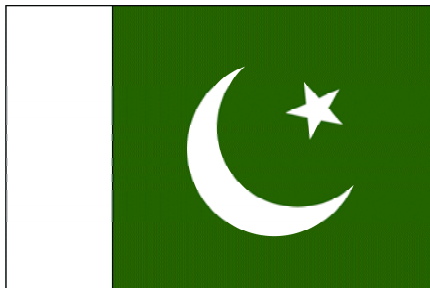
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# Pakistan



## Capital:

name: Islamabad

## Currency (code):

Pakistani rupee (PKR)

## Area:

total: 803,940 sq km  
land: 778,720 sq km  
water: 25,220 sq km

## Area - comparative:

slightly less than twice the size of California

## Border countries:

Afghanistan 2,430 km, China 523 km, India 2,912 km, Iran 909 km

## Population:

164,741,924 (July 2007 est.)

## Age structure:

0-14 years: 36.9% (male 31,264,576/female 29,507,174)  
15-64 years: 58.8% (male 49,592,033/female 47,327,161)  
65 years and over: 4.3% (male 3,342,650/female 3,708,330) (2007 est.)

## Median age:

total: 20.9 years  
male: 20.7 years  
female: 21 years (2007 est.)

## Ethnic groups:

Punjabi, Sindhi, Pashtun (Pathan), Baloch, Muhajir (immigrants from India at the time of partition and their descendants)

## Religions:

Muslim 97% (Sunni 77%, Shi'a 20%), other (includes Christian and Hindu) 3%

## Languages:

Punjabi 48%, Sindhi 12%, Siraiki (a Punjabi variant) 10%, Pashtu 8%, Urdu (official) 8%, Balochi 3%, Hindko 2%, Brahui 1%, English (official; lingua franca of Pakistani elite and most government ministries), Burushaski and other 8%

## Government type:

federal republic

## Climate:

mostly hot, dry desert; temperate in northwest; arctic in north

## Natural resources:

land, extensive natural gas reserves, limited petroleum, poor quality coal, iron ore, copper, salt, limestone

## Land use:

arable land: 24.44%  
permanent crops: 0.84%  
other: 74.72% (2005)

## Irrigated land:

182,300 sq km (2003)

## GDP (purchasing power parity):

\$437.5 billion (2006 est.)

## GDP (official exchange rate):

\$124 billion (2006 est.)

## GDP - real growth rate:

6.6% (2006 est.)

## GDP - per capita (PPP):

\$2,600 (2006 est.)

## GDP - composition by sector:

agriculture: 22%  
industry: 26%  
services: 52% (2006 est.)

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