

Pakistan: Has Premature Deindustrialization been carried out?

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Abstract: While “deindustrialization” is now considered normal for developed countries, recent trends show that many developing countries have seen their share of manufacturing employment peak at far earlier levels of income than in advanced countries. This new occurrence, which blocks off the main avenue for a country to catch up with more advanced economies, has been called “premature deindustrialization.” As a result of stagnation in manufacturing since 2007, Pakistan is on the brink – if not already in the process – of premature deindustrialization. This paper focuses on (i) Kaldor’s reasons for considering manufacturing to be the engine of growth, (ii) growth trends in economical structure and employment, (iii) developments in the context of premature deindustrialization in Pakistan, (iv) The opportunities brought by CPEC. Although the paper examines these phenomena in the specific case of the Pakistan economy, the analysis has much wider application, both for economic policy and for theories of growth and structural change.

Keywords: Industrialization, Premature Deindustrialization, manufactures, growth

1.Introduction

Our modern world is in many ways the product of industrialization. It was the industrial revolution that enabled sustained productivity growth in Europe and the United States for the first time, resulting in the division of the world economy into rich and poor nations. It was industrialization again that permitted catch-up and convergence with the West by a relatively smaller number of non-Western nations – Japan starting in the late 19th century, South Korea, Taiwan and a few others after the 1960s. For countries that still remain mired in poverty, such as those in sub-Saharan Africa, future economic hopes rest in large part on fostering new manufacturing industries.

It is old news for most of the advanced economies of the world, which long ago moved into a new, post-industrial phase of development. These economies have been deindustrializing for decades, a trend that is particularly noticeable when one looks at the employment share of manufacturing. The term deindustrialization is used today to refer to the experience mainly of these advanced economies. In this paper, I focus on a less noticed trend over the last three decades, which is an even more striking, and puzzling, pattern of deindustrialization in low- and middle income countries. With some exceptions, confined largely to Asia, developing countries have experienced falling manufacturing shares in both employment and real value added, especially since the 1980s. For the most part, these countries had built up during the 1950s and 1960s modest manufacturing industries behind protective walls and policies of import substitution. These industries have been shrinking significantly since then.

What developing countries are experiencing today is appropriately called “premature deindustrialization,” a term that seems to have been first used by Dasgupta and Singh (2006). In most of these countries, manufacturing began to shrink

(or is on course for shrinking) at levels of income that are a fraction of those at which the advanced economies started to deindustrialize. These developing countries are turning into service economies without having gone through a proper experience of industrialization.

For the past few years, these tendencies which will be documented more fully in subsequent sections are as follows:

- Evidence of deindustrialization (the fall in the share of manufacturing employment or an absolute fall in such employment) in several developing countries at a much lower level of per capita income than observed historically in today's advanced countries during their period of industrialization.
- The related phenomenon of 'jobless growth' in the formal manufacturing sector both in slow-growing economies (as in Latin America) as well as more surprisingly in fast-growing economies (such as India and Pakistan).
- Evidence that manufacturing may no longer be as steadfast an engine of growth as has been the case in the past. Contrary to widespread past experience, in the last decade or so services have often grown at a faster long-term rate than manufacturing.

The three phenomena of the last decade or so referred to above—namely, premature deindustrialization, jobless growth of manufacturing in the formal sector, and faster growth of services than of manufacturing—are examined in this paper both with respect to a large cross section of developing countries and of states in the Pakistan economy.

The paper is organized as follows. Section 2 outlines Kaldor's reasons for considering manufacturing to be the engine of growth for both developed and developing countries. Section 3 looks at developments in Pakistan in the context of this discussion, analyzing the change in the structure of industry. Section 4 concludes with a discussion of the prospects for industrial growth in Pakistan.

2. Manufacturing as the engine of growth: the Kaldorian approach

Kaldor, in seminal contributions (1966, 1967) provided the intellectual basis for regarding manufacturing as the leading sector in economic growth. Here, Kaldor was following a long line of classical economic analysis, and was particularly influenced by Young (1928) who emphasised the overall macroeconomic spillover effects of the extension of manufacturing industry, the so-called macroeconomies of scale. Kaldor extended these ideas in the papers mentioned earlier and, importantly as an economic adviser to the British government in the late 1960s, proposed a selective employment tax to promote manufacturing in Britain. The underlying argument was that, for Britain to grow faster, manufacturing had to grow faster still and this required the transfer of labour from services to manufacturing. To encourage such a shift, a selective employment tax on services was introduced on Kaldor's recommendation.

In Kaldor's opinion, the British economy was at a disadvantage in relation to its continental rivals because, as a result of its relatively earlier maturity, there was little surplus labour in agriculture that could be transferred to industry. Moreover, unlike in

continental Europe, agricultural wages were nearer the average level of industrial wages. So that there was little incentive for labour to leave agriculture for industry.

Kaldor introduced the concept of dynamic economies of scale, such that the faster the growth of manufacturing output, the faster the growth of manufacturing productivity. He ascribed these dynamic economies to Arrow (1962) notion of 'learning by doing' and argued that this occurred principally in industry and not in services or agriculture. Unlike the 'total factor productivity' concept of neoclassical economics, which is entirely based on the supply side, Kaldor's model considered both the demand and supply sides. As demand and supply conditions differ between sectors, Kaldor believed that it was not adequate to formulate a theory of economic growth based on a single product economy. His distinction between industry, agriculture and services may be summarized as follows. On the demand side, he suggested that the income elasticity of demand for manufacturing products was greater than that for agriculture, while being more or less similar to that of services. On the supply side, manufacturing was thought to have greater potential for productivity growth for the reasons outlined above. Notwithstanding the problem of the measurement of services production, the productivity growth of services tended to be considerably less than that of manufacturing.

On the basis of these stylized tendencies concerning demand and supply conditions in agriculture, manufacturing and services, Kaldor derived generalizations concerning the relationship between the growth of output, employment and productivity in different sectors of the economy. These generalizations are known as 'Kaldor's laws'.

Kaldor's growth laws are a series of three *laws* relating to the causation of economic growth.

Looking at the countries of the world now and through time [Nicholas Kaldor](#) noted a high correlation between living standards and the share of resources devoted to industrial activity, at least up to some level of income. Only New Zealand, Australia and Canada have become rich whilst relying mainly on agriculture.¹ He proposed three laws on these empirical regularities:

- The growth of the GDP is positively related to the growth of the manufacturing sector. This is perhaps better stated in terms of GDP growth being faster the greater the excess of growth of industrial growth relative to GDP growth: that is when the share of industry in GDP is rising.

- The productivity of the manufacturing sector is positively related the growth of the manufacturing sector (this is also known as [Verdoorn's Law](#)). Here the argument is that there are increasing returns to scale in manufacturing. These may be static—where the larger the size of the sector the lower the average costs—or dynamic via the induced effect that output growth has on capital accumulation and technical progress. Learning by doing effects are also likely to be important.

- The productivity of the non-manufacturing sector is positively related to the growth of the manufacturing sector. This last law is the least intuitive and is based on the argument that the non-industrial sector has diminishing returns to scale. As resources are moved out the average productivity of those that remain will rise.

3. Pakistan's Experience

Since the industrial revolution, the history of developed countries' rising proved that industrialization is the only way towards developed countries, and manufacturing is the core power of increased economy in the industrial transformation process. However, since 1960s, the industry of most of those advanced economies which has been into post industrialization (especially manufacturing) presented the trend of a consistently decreased proportion of output value and employment, which is often referred to as Deindustrialization. "Deindustrialization" is defined as a phenomenon that both the proportion of output value and proportion of employment decreased in the industry part of a nation or an economy. When deindustrialization is regarded as an phenomenon that happens only in developed economies, some countries with medium or low income also present the trend of deindustrialization, though these countries have transformed to service economy without experiencing the period of industrialization, which is called "Premature Deindustrialization".

The achievements that Pakistan has achieved since 1947 is significant, whose growth rate per annum is approximately 5%, rare in developing countries. In recent years, the rapid-growing service industry has been the most significant achievement in its economy development, which is quite different from traditional industry develop mode. The develop process of manufacturing is often in accordance to an inverted U path, but manufacturing in Pakistan has an earlier inflection with a low development and an income which is a small part of advanced economies during their deindustrialization. Therefore, we are confused whether premature deindustrialization of Pakistan has been carried out, and whether Pakistan has entered into service economy period.

Analysis of Pakistan industrial development situation

A. Development and employment situation of each industry

In 1947, the partition of Pakistan and India disrupted the original economic order, leaving Pakistan a typical country which depends on agriculture and has its second and third industry severely undeveloped. In terms of the sector of each industry in GDP, agriculture has a consistently-decreased ratio, but it is still the largest part of the economy. In 2015, it takes a proportion of 25.5% in the total amount of GDP, absorbing 43.5% workforce. Industry ratio shows an "inverted U type" trend which increases first and then decreases. It reached its peak in 2005, taking a proportion of only 27.1% and a proportion of 20% in average employment ratio. The service industry is the most stable one in increasing, from 38.2% in 1960 to 51.5% in 2015, and becomes the engine that pushes forward the economy. During the decade from 2001 to 2010, the service industry had increased by nearly 4 percentages, compared with the consistently-decreased agriculture and the stable industry. Therefore, the huge development in this period of Pakistan's service is called a revolution by some researchers.

The employment structure in Pakistan is quite different from the huge changes in output specific gravity structures. In terms of the employment proportion situation of each department, the employment proportion of agriculture decreases constantly, and the employment proportion in manufacturing recovers and fluctuates firmly, while that of service industry increases gradually. The department proportion of employment does not change a lot. Though the ratio of agriculture in GDP decreases, the agriculture is still the department with most people employed. Agriculture only takes a proportion of 25.5% in GDP, but the employment proportion of it accounts for 43.5%, which reflects that it has a much less efficient productivity of labor than industry and manufacturing. Although the employment proportion of service has increased constantly, the small increasing amplitude does not have an obvious effect on the overall employment and attraction towards workforce from agriculture. During the period from 2001 to 2010, when the service industry developed rapidly, its employment ratio increased less than 1%, which means that service industry has a shortage in job providing and job creation. According to the theory of economy development, service industry can provide numerous employment opportunities. The service industry in developed countries accounts for over 70%. Therefore, the employment ratio of service industry of Pakistan accounts for a small part, and is still a weak department, in terms of employment, which is quite different from the characteristics of post industrialization.

B.Increasing situation in manufacturing

In the initial period of Pakistan independence, the British capital controlled almost all the industry, transportation, and bank insurance, but Pakistan capital had accounted for 81% in the total fixed capital formation since 1980. Pakistan industry has developed significantly since the foundation with a ratio in GDP increasing from 15.6% in 1960 to 23.2% in 2015. The Pakistan government focused on the development of industry, and its predominant policies were to help private enterprises play an important role, and give priority to the development of light industry (High Kun, Zhang Minqiu. South Asian political and economic development research M. Beijing: Peking University press, 1995). In 1950s and 1960s, industry developed rapidly with a faster growth than agriculture and manufacturing and showed signs of transformation of early stage of industrialization. In 1970s, influenced by the state - owned policy of Bhutto administration, the industrialization grew slowly, and the development of heavy industry still tagged, while the development of service began to speed up. In 1980s, the implementation of “Fifth Five-Year” plan and “Sixth Five-Year” plan ended the difficult period in economy development history, and annual growth rate of industry and service accounted for 7.8% and 6.6%. Since 1990s, though Pakistan still focused on and pushed the development of industry, the increase of industry slowed down, while service remained in a stable growth. Since 2005 when the proportion of industry in GDP reached its peak at 27%, the proportion of industry has been in a decreased trend recent years(Table 1).

Table1 Pakistan’s GDP and Employment

Year	GDP (%)			Employment (%)		
	Agriculture	Industry	Services	Agriculture	Industry	Services

1960	46.2	15.6	38.2	—	—	—
1970	36.8	22.3	40.9	—	—	—
1980	29.6	24.9	45.6	52.8	20.3	26.8
1985	28.5	22.5	49	51.2	20.1	28.7
1990	26	25.2	48.8	51.1	19.9	28.9
1995	26.1	23.8	50.1	46.8	18.5	34.6
2000	26	23.3	50.7	48.4	18	33.5
2005	21.5	27.1	51.4	43	20.3	36.6
2010	24.3	20.6	55.1	45	20.9	34.1
2015	25.5	19	55.5	43.5	22.5	34

Source: World Bank <http://data.worldbank.org.cn>

In terms of absorption employment situation in industry, employment structure remains almost the same, the industry development does not result in a significant change in employment structure, and it does not improve the structure of high unemployment and insufficient employment. Manufacturing and construction account for the most employment, but compared with the output proportion, construction has more employed population than any other industries, which refers that manufacturing has a higher productivity, while that of construction is lower (Table 2).

In terms of the industry itself, manufacturing plays an important role in economy development in Pakistan. Rapid-developed manufacturing contributed in the GDP growth from 7.7% from 1949 to 1959 to 19.15% from 2005 to 2006. However, what is worthy mentioning is that the industry increase in the past does not result in the transformation and diversification, instead, new investment is still carried out in traditional industry. The growth value of six scale manufacturing like textile, food, cement, machinery, fertilizer, and oil refining still take a stable account of over 50%, which lacks the diversification of manufacturing output and development of new typed industrialization. Meanwhile, basic industries like iron and steel, metallurgy, heavy machinery, petrochemical, etc. are regarded as indicator of industrialization, which do not exist in Pakistan and limit the development of downstream industries (Table 3).

Table 2 Pakistan's industrial weight and absorb employment situation

Year	GDP(%)						Employment (%) (%)				
	1996-9	1999-200	2005-0	2010-1	2014-1	2015-16	1996-9	1999-200	2005-0	2010-1	2014-1
	7	0	6	1	5	P	7	0	6	1	5
B. Industry	23.51	23.33	26.87	21.2	20.3	21.02	18.93	18.03	20.72	21.23	23.21
1. Mining & quarrying	0.52	2.28	3.07	3.0	2.9	2.98	0.10	0.07	0.09	0.15	0.16
2. Manufacturing	15.88	14.68	19.15	13.5	13.3	13.6	11.1	11.48	13.84	13.65	15.33
3. Electricity and gas distribution	3.46	3.92	2.14	2.4	1.7	1.85	0.98	0.70	0.66	0.48	0.41
4. Construction	3.65	2.45	2.51	2.4	2.4	2.58	6.75	5.78	6.13	6.95	7.31

Source: Pakistan Bureau of Statistics (PBS)

Table 3 Group wise growth and Point Contribution of LSM

S.No.	Groups	Output	Growth Rate (%)					
			2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	Textile	20.91	0.7	0.8	0.92	1.45	0.5	0.62
2	Food,Beverages&Tobacco	12.37	14	6.5	7.3	8.24	-1.03	3.66
3	Coke&Petroleum products	5.51	-4.6	-5.7	13.31	7.49	4.73	2.4
4	Pharmaceuticals	3.62	1.3	10.9	16.35	-0.37	6.38	7.21
5	Chemicals	1.72	-2.5	-4.7	-1.08	6.74	5.94	10.01
6	Automobiles	4.61	11.9	-0.8	-11.84	0.35	17.02	23.43
7	Iron&Steel Products	5.39	-10.3	-28.5	13.24	3.38	35.63	-7.48
8	Fertilizers	4.44	-9.2	-0.4	-5.03	21.64	0.95	15.92
9	Electronics	1.96	-14.4	-7.9	-6.43	7.02	8.21	-9.98
10	Leather Products	0.86	17.4	1.8	-2.33	12.7	9.62	12.18
11	Paper&Board	2.31	-2.3	8.4	21.97	9.3	-7.26	-2.9
12	Engineering Products	0.4	-9.5	-10.2	-15.6	-20.15	-10.68	-17.64
13	Rubber Products	0.26	9.2	-24.6	17.61	9.41	-0.56	11.68
	Non-Metallic Mineral							
14	Products	5.36	-9.6	2.9	5.86	0.19	2.56	10.23
15	Wood products	0.59	6.9	7.4	-18.98	-8.91	-78.46	-58.03

Source: Pakistan Bureau of Statistics (PBS)

C.Increasing situation in service

The services sector has been growing at a much faster rate than commodity producing sector of the economy for quite some times. It has maintained the same trend in fiscal year 2014-15 and grew at 4.95 percent. Services sector has emerged as the most significant driver of economic growth and contributing a major role in augmenting and sustaining economic growth in Pakistan. This sector of the economy has a enormous potential to grow at much higher rate and government is trying to tap this potential by providing an enabling environment. The growth performance of services sector is broad based, all components of services contributed positively in growth as Wholesale and Retail Trade grew at 3.38 percent, Transport, Storage and Communication at 4.21percent, Finance and Insurance at 6.18 percent, Housing Services at 4.0 percent, General Government Services at 9.44 percent and Other Private Services at 5.94 percent (Table 4).

Pakistan's service increases the fastest in GDP and takes the most proportion than any other industries. From 38.1% from 1960 to 1961 to 58.8% from 2014 to 2015, service contributes to two thirds of DGP growth and absorbs one third of employment population, and it has become one of the diver of Pakistan's economy growth. From 2014 to 2015, the service in Pakistan increased by 5%, with the entire sub departments increasing, and its growth is combined with the development of product producing, bank and insurance. Service has become the main driver to improve productivity, create employment and enhance the national average income.

Table 4 Services Sector weight and absorb employment situation

年份	GDP(%)						Employment (%)
	1996-97	1999-00	2005-06	2010-11	2014-15	2015-16P	2014-15
C.Services Sector	49.79	50.74	52.77	57.10	58.9	59.16	29.73
1.Wholesale&Retail Trade	16.04	17.46	17.63	18.84	18.3	18.27	14.64
2.Transport,Storage and Communication	9.79	11.26	12.69	13.15	13.4	13.29	2.6
3.Finance&Insurance	3.61	3.72	5.09	3.01	3.1	3.25	0.59
4.Housing Services (Ownership of Dwellings)	4.33	3.10	2.58	6.74	6.8	6.71	0.38
5.General Government Services	7.69	6.18	5.65	6.24	7.4	7.58	8.64
6.Other Private Services	8.33	9.03	9.13	9.13	9.9	10.06	2.88

Source: Pakistan Bureau of Statistics (PBS)

D.Analysis of imports and exports

The import and export trade is one of the departments deserving worries in Pakistan's economy, since trade deficit continues to expand and results in trade imbalance. In terms of total import and export value, import value increases faster than export value, so Pakistan is in trade deficit, and the trade deficit continues to expand, with a deficit of 2,282.3 million U.S. dollars in 2014.

During recent years, Pakistan exports recorded a sluggish growth. The exports target for FY2016 was set at US\$ 25.5 billion. Exports during July- Mar FY2016 remained at US\$ 15.6 billion as compared to US\$ 17.9 billion in July-Mar FY2015, decline of 12.9 percent. The main reasons for lower performance of exports are generally weak external demand, slowdown in economic growth of China, lost textile share to new competitors in international markets, and unfavourable terms of trade for exports with little value added. Analysis of group-wise exports suggests that Food group registered a decline of 11.6 percent during July – March FY2016 compared to the same period last year. Within food group, rice export declined by 12.3 percent in value, despite favorable 7.6 percent growth in quantity.

Table 5 Structure of Exports

Particulars	2012-13	%	2013-14	%	2014-15p	%
Total	20143.2		20979.1		19921.5	
A FOOD GROUP	3918	19.45	3942.5	18.79	3862.1	19.39
Rice	1589.6	7.89	1850.3	8.82	1749.7	8.78
Sugar	393.1	1.95	247.5	1.18	251.5	1.26
Fish&Fish Preparation	255.8	1.27	294.1	1.40	287	1.44
Fruits	340.6	1.69	398	1.90	399.9	2.01
Vegetables	213.6	1.06	186.7	0.89	196	0.98
Wheat	53.4	0.27	7	0.03	3	0.02
Spices	55.1	0.27	45.1	0.21	54	0.27

	Oil Seed,Nuts&Kernels	28	0.14	76.9	0.37	61.5	0.31
	Meat&Meat Preparation	177.6	0.88	191.8	0.91	202.3	1.02
	Other Food items	811.2	4.03	645	3.07	657.2	3.30
B	Textile Manufactures	10739.8	53.32	11420.1	54.44	11281.6	56.63
	Raw Cotton	138.3	0.69	196.1	0.93	144.7	0.73
	Cotton Yarn	1860.5	9.24	1715.8	8.18	1587.1	7.97
	Cotton Cloth	2224	11.04	2345.8	11.18	2088.1	10.48
	Knitwear	1663.6	8.26	1839.2	8.77	1981.9	9.95
	Bedwear	1468.2	7.29	1767.3	8.42	1747.4	8.77
	Towels	645	3.20	629.9	3.00	650.1	3.26
	Readymade Garments	1470.8	7.30	1577.9	7.52	1722.1	8.64
	Made-up articles	480.8	2.39	542.1	2.58	542.6	2.72
	Other Textile Manufactures	788.6	3.91	806	3.84	817.7	4.10
C	Petroleum Group	6.2	0.03	601.3	2.87	538.6	2.70
	Petroleum Products	5.7	0.03	58.6	0.28	302.3	1.52
	Petroleum Top Neptha	0	0.00	542.7	2.59	236.3	1.19
D	Other Manufactures	4227.6	20.99	3867.3	18.43	3213.1	16.13
	Carpets,Rugs&Mats	96.8	0.48	106.5	0.51	102.6	0.52
	Sports Goods	268.5	1.33	290.4	1.38	271.9	1.36
	Leather Tanned	390.1	1.94	439.3	2.09	407.9	2.05
	Leather Manufactures	463.2	2.30	520.5	2.48	498.2	2.50
	Surgical G.&Med.Inst	252.6	1.25	284.9	1.36	284.1	1.43
	Chemical &Pharma.Pro.	636.3	3.16	968.8	4.62	809.2	4.06
	Engineering Goods	217.8	1.08	255.6	1.22	188.7	0.95
	Jewellery	1142.9	5.67	318.3	1.52	5.8	0.03
	Cement	468.7	2.33	413.7	1.97	382.4	1.92
	Guar&Guar products	119.8	0.59	58.3	0.28	49.9	0.25
	All Other Manufactures	170.9	0.85	210.8	1.00	212.4	1.07
E	All Other items	1251.6	6.21	1147.9	5.47	1026.1	5.15

Source: Pakistan Bureau of Statistics (PBS)

Concentration of Exports

Pakistan's exports are highly concentrated in few items like cotton & cotton manufactures, leather, rice, and few more items (Table 5). The first three categories of exports accounts for 71.5 percent of total exports during July-March FY2016 with cotton & cotton manufacture alone contributing 58.1 percent. Traditionally the contribution of these three categories was 68.8 percent during the same period last year, and 65.8 percent during FY 2014. The bifurcation of these items in Table 6 shows that exports in these few items are the major factor for lower export earnings.

Table 6: Pakistan's Major Exports

Commodity	2009-1	2010-1	2011-1	2012-1	2013-1	2014-1	July-March
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	0	1	2	3	4	5	2014-15	2015-16 P
Cotton Manufactures	50.6	52.9	49.6	51.6	53.1	54.4	54.9	58.1
Leather	4.5	4.4	4.4	4.7	5.1	4.8	4.6	4.6
Rice	11.3	8.7	8.7	7.8	7.6	8.5	8.8	8.8
Sub-Total of three Itenms	66.4	66	62.7	64.1	65.8	67.8	71.5	71.5
Other items	33.6	34	37.3	35.9	34.2	32.2	28.5	28.5
Total	100	100	100	100	100	100	100	100

Source: Pakistan Bureau of Statistics (PBS)

4. Conclusion

Industry growth has played a critical role in the development of the advanced countries as well as in almost all developing countries that have succeeded in closing the income gap with the former. Manufacturing typically experiences an inverted U-shaped relationship over the course of development, Pakistan is turning into service economies without having gone through a proper experience of industrialization.

In sum, while technological progress is no doubt a large part of the story behind employment deindustrialization in the advanced countries, in the developing countries trade and globalization likely played a comparatively bigger role. As developing countries opened up to trade, their manufacturing sectors were hit by a double whammy. Those without a strong comparative advantage in manufacturing became net importers of manufacturing, reversing a long process of import substitution. In addition, developing countries “imported” deindustrialization from the advanced countries, because they became exposed to the relative price trends produced in the advanced economies. The decline in the relative price of manufacturing in the advanced countries put a squeeze on manufacturing everywhere, including the countries that may not have experienced much technological progress.

As a result of stagnation in manufacturing since 2007, Pakistan is on the brink, if not already in the process, of premature deindustrialization. It will not be easy to revitalize industrial growth in Pakistan: its industrial structure in terms of sophistication is not only below that of other countries at its level of per capita income, but it has also been stuck at this low level of sophistication for a long time.

Pakistan should once again adopt a proactive industrial policy to address the constraints and weaknesses of the manufacturing sector. The significant development is the announcement of the China-Pakistan Economic Corridor investment package of about US\$ 46 billion. If implemented even partially, this initiative will have many positive impacts on the economy – boosting economic activity, significantly reducing the crippling power shortages, and changing economic sentiments in and about Pakistan, which could boost both domestic and foreign direct investment in the country. These developments complement each other and could potentially initiate a “virtuous” circle of investment and growth lasting many years.

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