

## **PAKISTAN-ITALY POLITICAL, ECONOMIC AND TRADE RELATIONS AND THE PROSPECTS FOR FUTURE TRADE AND BUSINESS OPPORTUNITIES (2004-2014)**

**Hina Asad Afaqui**

Pakistan enjoys close and cordial diplomatic, economic, cultural, business and trade ties with Italy. The two countries share perceptions on major international and regional issues such as terrorism and UN reforms. Italy supports Pakistan in important regional forums such as the European Union, NATO and Friends of Democratic Pakistan (FoDP).

Italy, like many other European countries recognizes the strategic location of Pakistan in South Asia and acknowledges that a moderate, democratic and stable Pakistan is essential for the maintenance of peace and security in the entire region.

On its part, Pakistan greatly values its relations with Italy, which has a diversified industrial economy with roughly the same GDP and per capita output as France and the UK. Italy's capitalist economy remains divided into a developed industrial North, dominated by private enterprise and a less developed agricultural South, which is dependent on government subsidies to a considerable extent. However, the Italian economy has changed dramatically since the end of World War II. From an agriculture based economy, it has developed into an industrial country now ranked as the World's fifth largest industrial economy.<sup>1</sup> Italy is a member of the European Union, the Group of Seven (G-7) industrialized nations and the Organization of Economic Cooperation and Development (OECD).

Italy and Pakistan established diplomatic relations in 1948.<sup>2</sup> Since then there have been frequent bilateral contacts between Pakistan and Italy at the governmental and non-governmental levels.

---

<sup>1</sup> Dr. Noor Ahmed Memon, "Pak-Italian Trade Relations", *Pakistan Textile Journal* (August 2009), at <http://www.ptj.com.pk/Web-2009/08-09/Dr.Noor.htm>.

<sup>2</sup> Visit Embassy of Italy in Islamabad, at [http://www.ambislamabad.esteri.it/Ambasciata\\_Islamabad/Menu/I\\_rapporti\\_bilaterali/Cooperazione\\_politica/Storia/](http://www.ambislamabad.esteri.it/Ambasciata_Islamabad/Menu/I_rapporti_bilaterali/Cooperazione_politica/Storia/).

Pakistan maintains an embassy in Rome and a Consulate General in Milan, while Italy too has an embassy in Islamabad and a Consulate General in Karachi and an honorary consulate in Lahore. Italy-Pakistan relations are based upon mutual cooperation in the fields of commerce and industry, technology, science, culture and archaeology. Pakistan also receives assistance from Italy. Notwithstanding the vicissitudes of its economy, the Italian government has generously rendered assistance to Pakistan in various industrial projects.<sup>3</sup> Rome has also extended humanitarian and emergency assistance to Pakistan whenever a natural disaster has struck Pakistan. Also there are more than 100,000 Pakistanis residing in Italy.

The bilateral relations of these two countries are discussed below in more detail.

#### **Political relations**

Italy has rendered support to Pakistan's stance on various political issues. In the aftermath of the Soviet invasion of Afghanistan in 1979, Pakistan received firm and consistent support from Italy. The Italian government provided generous assistance to Pakistan for the sustenance of Afghan refugees in various camps across the country, and also voted in favour of UN resolutions calling for the withdrawal of Soviet troops from Afghanistan.<sup>4</sup> Italy and Pakistan have shared similar views on a number of international issues in the past ranging from Afghanistan to Kampuchea, the Iran-Iraq war, the Middle East, apartheid in South Africa, arms control, nuclear proliferation and maintaining peace in South Asia.

Over the decades, several high-level visits were exchanged and a number of MoU's and agreements were signed between Pakistan and Italy.

Pakistan-Italy relations received stimulus in the aftermath of 9/11, when Pakistan decided to join the US led war against terrorism. Around two years before this event, after Pakistan conducted a series of nuclear tests in May 1998 in a tit-for-tat response to the Indian nuclear explosions, Pakistan was unsparingly criticized by most of the European countries including Italy in international fora, such as the European Union and G-8. India too was

---

<sup>3</sup> Moonis Ahmar, *Pakistan-Italian Relations* (Karachi: Area Study Centre For Europe, University of Karachi, 1989), 22-23.

<sup>4</sup> *Ibid.*

criticized, but the Western powers were more disturbed about Pakistan, a Muslim country, overtly declaring its nuclear status. The US and the other G-8 countries agreed to block assistance from the international financial institutions to India and Pakistan. Exception was made for humanitarian aid and related projects. In the joint communiqué issued at Geneva, Italy and the other G-8 countries asked India and Pakistan to take certain steps to attenuate the consequences of the tests. India and Pakistan were urged to sign the CTBT “immediately and unconditionally” and also both countries were asked to participate in negotiations at the Geneva based Conference on Disarmament (CD) for an internationally binding instrument banning the production of fissile materials for the production of weapons. Finally, Italy and other G-8 states exhorted the two countries to renew their bilateral dialogue on all issues including that of Kashmir. They were asked to take effective measures to ensure that their nuclear competition did not spiral out of control. The two protagonists were urged to refrain from further nuclear testing, producing more fissile material for weapon purposes, testing ballistic missiles and deploying nuclear weapons.<sup>5</sup> The nuclear tests in South Asia were followed by a military coup in Pakistan on October 12, 1999, which resulted in the suspension of various EU-Pakistan agreements and the political dialogue with Islamabad.

Like other EU member states, Italy demanded the restoration of democracy in Pakistan at various meetings of the European Union institutions. The situation changed dramatically, when Pakistan decided to support the US-led international coalition against Al-Qaeda and their hosts, the Taliban regime of Afghanistan in the aftermath of 9/11. A number of steps for bringing stability in Pakistan, Afghanistan and the adjacent regions, and for dealing with the extraordinary circumstances, were taken by the West, including the EU. These included the restoration of political dialogue between the EU and Pakistan, the signing of the 3<sup>rd</sup> generation Pakistan-EU Agreement, a preferential trade package and inclusion of the country in the EU’s GSP+ scheme. Brussels also announced development aid for Pakistan. In the post 9/11 scenario, the Italian government offered to cancel US\$85 million out of the total US\$180 million that Pakistan owed to Italy. The offer was made after the Paris club meeting of December 13, 2001, where it had been decided that Pakistan’s debts would be rescheduled. This debt to Italy pertained to expenditure incurred on Afghan refugee related

---

<sup>5</sup> Howard Diamond, “India Conducts Nuclear Tests; Pakistan Follows Suit”, available from see at <http://www.armscontrol.org/print/349>.

projects since October 2001. According to a mutually agreed mechanism, the debt would be cancelled in annual tranches of a maximum of 20 million Euros till reaching the total figure of approximately US\$85 million.<sup>6</sup>

With regard to the expansion in the number of UN Security Council's permanent members, Pakistan, Italy and Argentina have cooperated since 2005 in effectively blocking the induction of any new permanent members. India, Brazil, Germany and Japan – known as the Group of Four – made an official bid in 2005 to gain permanent membership of the UN Security Council. Their bid to gain permanent membership of the UN body was challenged by a group led by Pakistan and Italy, which opposed any additional permanent members and pressed for the Council's expansion, but with the addition of non-permanent members.<sup>7</sup> In this regard, when the then President of Pakistan General Pervez Musharraf paid an official visit to Italy in September 2004, a joint statement was released after his meeting with Italian President Carlo Ciampi. In this statement the two leaders upheld that although reform of the Security Council was necessary, it should not entail an expansion in the number of permanent seats.<sup>8</sup> Both countries expressed the determination to block any attempt to violate basic democratic norms and the principle of equality of nations and oppose any attempts to confer special status on certain countries making them "more equal" than others.<sup>9</sup> The issue is important for both countries, for each has powerful neighbours which are lobbying to gain the support of UN member states to acquire permanent status in the UN Security Council. Italy is anxious about Germany's quest for a permanent seat in the Council, while India's lobbying for a permanent status in the UN's premier war and peace making body has naturally caused alarm in Pakistan.<sup>10</sup> During this meeting the two leaders also discussed means to step up their bilateral cooperation, particularly in trade and on political issues. The situation in Iraq and Afghanistan also came under discussion. President Musharraf in his address to the Italian Senate urged the European Union to use its power

---

<sup>6</sup> "Economic Cooperation", *Year Book 2004-05*, Economic Affairs Division Government of Pakistan Islamabad, 33.

<sup>7</sup> Khalid Hasan, "Pakistan's Efforts to Keep India Out of SC Receive Setback", *Daily Times*, 18 September 2008.

<sup>8</sup> "Pakistan and Italy Sign Deal on Drug Trafficking, Tourism", *Daily Times*, 30 September 2004.

<sup>9</sup> "Permanent Membership: Pakistan-Italy Oppose UNSC Expansion, Stress Quality", *Pakistan Times*, at <http://pakistanimes.net/2004/09/29/top.htm>.

<sup>10</sup> *Daily Times*, 30 September 2004.

and influence to help resolve conflicts in the Muslim world, particularly long festering ones such as that of Palestine. The Pakistani leader also appealed to the European countries to promote interfaith harmony and pay attention to the economic development of Muslim countries. He also addressed a Pakistan-Italy trade and investment conference in Rome and assured Italian businessman that there would be continuity and consistency in Pakistan's economic policies, and foreign investments would be accorded legal protection. The two sides also signed agreements on the stoppage of drug trafficking and cooperation in the field of tourism.<sup>11</sup>

Bilateral relations between Pakistan and Italy continued to gather momentum with the visit of Shaukat Aziz, the then Prime Minister of Pakistan in July 2005. Prime Minister Aziz was accompanied by a high-level delegation that included businessmen. The Prime Minister held meetings with his Italian counterpart Prime Minister Silvio Berlusconi, the presidents of the Senate and the Chamber of Deputies and other political and business persons. During the visit, the leaders of the two countries reiterated their commitment to fight against terrorism and expressed the hope that the Indo-Pakistan composite dialogue would proceed in a sincere and purposeful manner, enabling the two neighbours to resolve all issues, including the dispute over Kashmir. The two sides again expressed their opposition to the proposed expansion of the UN Security Council. The situation in Iraq and the reconstruction of Afghanistan were also discussed. The two sides highlighted the need to energize the bilateral Joint Economic Commission setup by an agreement signed by Pakistan and Italy on October 7, 1984.<sup>12</sup> During the visit a memorandum of understanding on political cooperation between the foreign ministries of the two countries was signed. Also, an agreement regarding a credit line (soft loan) of Euro 7.75 million for supporting Small and Medium Enterprises (SMEs) was signed.

Bilateral consultations again took place during the visit to Pakistan of Italian Deputy Foreign Minister, Margherita Boniver in November, 2005. She was accompanied by a delegation. The Pakistani side was led by Makhdom Khusro Bakhtiar, Minister of State for Foreign Affairs. The two sides held an in-depth exchange of views with the aim of boosting their bilateral ties. The prospects for reactivation of the Pakistan-Italy Joint Economic Commission,

---

<sup>11</sup> *Pakistan Times*, 9 September 2004.

<sup>12</sup> "Pakistan and Italy Vow to Fight Terror", *Daily Times*, 16 July 2005, p.7.

speeding up the finalization of an agreement on debt cancellation and initiating technical cooperation in the area of olive cultivation also came under discussion.<sup>13</sup>

In May 2006 Italian Foreign Minister and Deputy Prime Minister Massimo D'Alema visited Pakistan. During his visit he held bilateral consultations with the President, the Prime Minister and Foreign Minister of Pakistan. The two sides exchanged views on regional and global issues and discussed all possible ways and means to enhance bilateral cooperation.<sup>14</sup>

During the Italian Deputy Foreign Minister, Gianni Vernetti's visit to Pakistan in November 2006, the following four MOU's were signed:

- (i) An MOU on Cultural, Scientific and Technological Cooperation for 2006 -2008.
- (ii) A Memorandum of Understanding on the implementation of an Italian emergency programme to support the affectees of the earthquake in the Northern Areas and Azad Kashmir.
- (iii) On November 4, 2006, an MOU on Debt for Development Swap.
- (iv) An MOU between the Higher Education Commission (HEC) of Pakistan and the Politecnico Di Torino of Italy.<sup>15</sup>

Another important visit was that of the Italian Chief of Defence, Admiral Giampaolo Di Paola in September 2006. Both sides discussed the geopolitical situation in the region and developments taking place in Afghanistan. Italian assistance to the affectees of the earthquake in Pakistan was lauded by the Pakistani side.

Italian Foreign Minister Franco Frattini visited Pakistan in October 2008. He held discussions on bilateral and regional issues with his Pakistani counterpart Foreign Minister Shah Mehmood Qureshi. The latter apprised Frattini about the growing economic and security challenges faced by

---

<sup>13</sup> Foreign Office, *Year Book 2005-06*, p. 93. Available at [www.mofa.gov.pk/Publications/YearBook\\_05-06.doc](http://www.mofa.gov.pk/Publications/YearBook_05-06.doc).

<sup>14</sup> Foreign Office, *Year Book 2006-07*, p. 87. Visit at [www.mofa.gov.pk/Publications/YearBook\\_06-07.doc](http://www.mofa.gov.pk/Publications/YearBook_06-07.doc).

<sup>15</sup> Ibid.

Pakistan. Frattini assured Italy's support and cooperation to Pakistan for its socio-economic development and its fight against terrorism.<sup>16</sup>

Italy held the presidency of G-8 in 2009. Besides other international issues, the stability of Afghanistan and its surrounding regions, including Pakistan, remained a top priority on the agenda of the Group. In this regard, a G-8 ministerial meeting on Afghanistan, Pakistan and the regional dimension took place in Trieste, Italy under Italy's Presidency on June 26-27, 2009. It was seen as a step forward in the process of building trust and fostering genuine cooperation to create a more secure, democratic, integrated and prosperous region<sup>17</sup>. The G-8 expressed the resolve to establish closer cooperation on border management, stoppage of illicit trafficking in narcotics and weapons, and reintegration of refugees and internally displaced persons (IDP's), as key measures for South Asia's progress and stability.<sup>18</sup>

The 35<sup>th</sup> G-8 annual summit was held in L'Aquila (Italy) from 8-10 July 2009. The outcome of the summit was of significance for Pakistan, as the G-8 member states, including Italy, made it clear that they would stand behind Pakistan in its fight against terrorism and would continue to support the government of Pakistan under the aegis of various forums such as the Friends of Democratic Pakistan (FoDP).

Here it is important to mention that Italy has always supported Pakistan in the EU on enhanced market access, particularly on issues related to the Generalized System of Preferences Plus (GSP+) scheme.

In September 2009, the then President of Pakistan, Asif Ali Zardari paid a three day visit to Italy, where he met the Italian President Giorgio Napolitano, Italian Prime Minister Silvio Berlusconi and Italian Foreign Minister Franco Frattini. The top-level leaders of the two countries discussed the conflict in Afghanistan and the issue of religious minorities in

---

<sup>16</sup> Press release no. PR. No.317/2008, "Italian Foreign Minister Franco Frattini's Visit to Pakistan", 20 October 2008, Ministry of Foreign Affairs Pakistan, available at [www.mofa.gov.pk/Press\\_Releases/News\\_Events\\_Oct\\_08.htm](http://www.mofa.gov.pk/Press_Releases/News_Events_Oct_08.htm).

<sup>17</sup> Visit the Ministry of Foreign Affairs of Japan, at [http://www.mofa.go.jp/policy/economy/summit/2009/declaration\\_p.pdf](http://www.mofa.go.jp/policy/economy/summit/2009/declaration_p.pdf).

<sup>18</sup> "Italy Favors Free Trade between Pakistan and Europe", *The News*, 22 July 2009, at [http://www.thenews.com.pk/daily\\_detail.asp?id=189375](http://www.thenews.com.pk/daily_detail.asp?id=189375).

Pakistan. Their talks also focused on the development of the tourism sector in Pakistan, besides other matters. An important outcome of the visit was that the Italian government agreed to set up a credit line facility of \$10 billion for Italian investors willing to invest in Pakistan.<sup>19</sup>

Italian Prime Minister Silvio Berlusconi and President Zardari also signed an agreement aimed at enhancing the exchange of intelligence and bilateral trade in the military field.

During Pakistani Foreign Minister Hina Rabbani Khar's visit to Italy in February 2013,<sup>20</sup> Pakistan and Italy signed a Strategic Engagement Plan (SEP) under which both the countries committed to increase bilateral cooperation particularly in the fields of defence and security. Under the SEP, the two countries agreed to deepen cooperation in political, security, defence, development, economic, scientific, cultural, energy and educational fields. There would also be stepped up cooperation on issues related to migration. The agreement provides for greater interaction between the defence forces of the two countries and enhanced interaction between their parliaments.<sup>21</sup>

### **Economic and trade relations**

Pakistan-Italy bilateral trade and investment relations have grown over the decades. According to data from the Office of Statistics of Pakistan, in the period 2012-2013, Italy remained the third largest EU trading partner of Pakistan after the UK and Germany. Overall, Italy was shown at the tenth place with a total value of bilateral trade with Pakistan amounting to around US \$1.5 billion. Italy is the 8<sup>th</sup> biggest exporter in the world.<sup>22</sup>

---

<sup>19</sup> "Investment in Pakistan: Italy to Set up \$10 billion Credit Facility", *Business Recorder*, 18 October 2009.

<sup>20</sup> Tazeen Akhtar, "Italy - Pakistan Relations", see at <http://www.pakistanintheworld.com/content/italy-pakistan-relations>.

<sup>21</sup> Baqir Sajjad Syed, "Pakistan, Sign Accord on Defence Cooperation Italy", *Dawn*, 01 February 2013, available at <http://www.dawn.com/news/782967/pakistan-italy-sign-accord-on-defence-cooperation>.

<sup>22</sup> Visit at [www.finance.gov.pk/publications/YearBook2012\\_13.pdf](http://www.finance.gov.pk/publications/YearBook2012_13.pdf).



**Trade between Pakistan and Italy (Million US \$)**

Year	Pakistan's Exports To Italy	Pakistan's Imports From Italy	Balance Of Trade
2003-04	454.048	312.63	141.418
2004-05	588.332	363.729	224.603
2005-06	585.453	523.776	61.677
2006-07	556.23	462.79	93.44
2007-08	641.53	488.15	153.37
2008-09	696.72	689.05	7.67
2009-10	575.98	405.59	170.40
2010-11	650.73	331.65	319.08
2011-12	792.92	325.18	467.74
2012-13	544.63	730.47	(185.84)
2013-14	601.59	540.67	60.92

Source: The Federation of Pakistan Chambers of Commerce and Industry, at [http://fpcci.org.pk/pdf\\_view.aspx?name=subcat\\_pdf\\_85.pdf&Title=TradewithItaly](http://fpcci.org.pk/pdf_view.aspx?name=subcat_pdf_85.pdf&Title=TradewithItaly)

**Pattern of major imports & exports**

<b>Major goods imported by Italy from Pakistan (€ million)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Food	17.89	19.74	25.9
Textiles	240.59	299.25	194.4
Clothing (also leather and fur)	79.86	94.59	75.56
Leather goods (except clothing)	49.42	64.61	57.2
Chemicals	34.21	18.28	8.2
Fabricated metal products, except machinery and equipment	5.33	6.09	6.59
Computers and electronic and optical products, electrical equipment, measuring equipment, and watches	3.91	7.5	5.3
Products of other manufacturing industries	19.81	16.6	17.46
Other products and activities	13.31	18.6	11.99
<b>Total imports by Italy from Pakistan (€ million)</b>	<b>490,81</b>	<b>583.62</b>	<b>431.51</b>

Source: Elaborated by the Italian Embassy in Pakistan on data provided by ISTAT ICE Agency. [http://www.infomercatiesteri.it/scambi\\_commerciali.php?id\\_paesi=136](http://www.infomercatiesteri.it/scambi_commerciali.php?id_paesi=136).

<b>Major goods exported by Italy to Pakistan (€ million)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Paper and paper products	4.02	5	4.59
Chemicals	46.72	54.46	51.82
Basic pharmaceutical products and pharmaceutical preparations	15.88	13.99	22.75
Rubber and plastics	6.17	5.53	6.08
Other products in the processing of non-metalliferous minerals	4.94	6.36	5.57
Metallurgy products	15.73	11.98	18.79
Fabricated metal products, except machinery and equipment	66.52	140.77	182.26
Computers and electronic and optical products, electrical equipment, measuring equipment, and watches	42.62	29.91	65.56
Electrical and non-electrical equipment for domestic use	18.69	11.62	12.75
Machinery and equipment	292.11	157.72	146.25
Other products and activities	20.53	16.19	18.39
<b>Total exports by Italy to Pakistan (€ million)</b>	<b>568.05</b>	<b>488.57</b>	<b>578.76</b>

Source: [http://www.infomercatiesteri.it/scambi\\_commerciali.php?id\\_paesi=136](http://www.infomercatiesteri.it/scambi_commerciali.php?id_paesi=136)

A number of Italian industries including ENI in the energy sector, Selex Galileo, Galileo Avionics, MBDA Italy and Selex Sistemi Integrati in the defence industry, Saipem in the chemical sector, Landi Renzo and Faber in the CNG sector, Pellegrini, Dazzini Machines, Moon Abrasives in the marble

sector and New Holland and others in the transport sector are actively investing directly or indirectly in Pakistan.<sup>23</sup>

### **The Italy-Pakistan Business Association**

The Italy-Pakistan Business Association is a non-profit association set-up in collaboration with the Italian Embassy in Pakistan. This platform affords an opportunity to Pakistani and Italian enterprises to boost their economic and trade relations by providing them with a wide range of business services in accordance with their requirements.<sup>24</sup>

### **Italian Development Committee (IDC)**

A new trade body, the Italian Development Committee (IDC), was established on September 30, 2009, aimed at the promotion of bilateral trade and investment between Italy and Pakistan. The IDC is affiliated with the Italian International Chambers of Commerce and has 11 founding members, with the Italian Consul-General in Karachi, Dominico Benincasa as its honorary president. The IDC is meant to work as a bridge between Italian and local companies in fields where Italian and Pakistani companies can share their knowledge and technical knowhow.<sup>25</sup>

### **Pakistan-Italy development cooperation**

Italy and Pakistan have been cooperating since nearly five decades. In 1963, Italy joined the Aid to Pakistan Consortium, the group which is now referred to as Pakistan Development Forum. Earlier, Italian cooperation and investments were focused on health and agricultural sectors. Italy contributed to the economic and infrastructure development of Pakistan. It was also involved in the construction of the world's biggest earth filled dam, Tarbela and later Ghazi Barotha.<sup>26</sup> Currently Pakistan and Italy are cooperating in several fields.

### **Main ongoing initiatives funded by Italian ministries**

- Agriculture and fisheries
- The promotion of the production and marketing of olive oil in Pakistan.<sup>27</sup>

---

<sup>23</sup> Elaborated by the Italian Embassy on data provided by ISTAT ICE Agency.

<sup>24</sup> Visit Italian Pakistan Business Association at <http://www.ipba.com.pk/>.

<sup>25</sup> See Italian Development Committee at <http://idcpakistan1.org/>.

<sup>26</sup> Muhammad Ali Sadiq, "President to Address Investors", *Dawn*, 28 November 2004.

<sup>27</sup> Ibid.

- Industry and handicrafts
- Support programme for development of small and medium enterprises.<sup>28</sup>

In this regard, a financial agreement amounting to €7.75 million was signed in June 2008 between the Small and Medium Enterprises Bank as a borrower on behalf of the government of Pakistan and the Italian Artigiancassa Bank as lender on behalf of the government of Italy. The agreement provides for the implementation of a credit facility offered by the Italian government for the provision of soft loans for small and medium enterprises (SMEs) development in Pakistan. The loan is interest free and is payable in 39 years.<sup>29</sup>

It is worthwhile to mention here that the Italian government has promised to provide a soft term loan of 20 million Euros to promote technical and vocational training and education in the marble sector in NWFP and Balochistan. This was announced after a meeting between the head of an Italian delegation, Emma Gori and Adnan A. Khawaja, the chairman of the National Vocational and Technical Education Commission (Navtec) on September 18, 2009.<sup>30</sup>

#### *Environment*

- Development of environmental resources and the establishment of a cultural center at Shiga.
- Integration and harmonization of interventions for sustainable development in Northern Pakistan (Karakorum Trust).<sup>31</sup>

#### **Debt for Development Swap Agreement between Italy and Pakistan**

On the request of Pakistan, Italy had initially agreed to waive half of its loan, on the presentation of the record of expenditure incurred on providing services to the Afghan refugees in Pakistan since 2001. This waiver was given in 2006. For the remaining part of the loan, the two sides agreed on Debt-for-Development-Swap and accordingly an agreement was

---

<sup>28</sup> Ibid.

<sup>29</sup> "Pakistan-Italy Sign Soft Loan for Development of SME", *Daily Times*, 03 June 2008.

<sup>30</sup> "Australia, Italy Pledge More Aid", *Dawn*, 29 September 2009, at <http://www.dawn.com/news/371920/Australia, Italy pledge more aid>.

<sup>31</sup> Ministry of Foreign Affairs Italy.

signed on July 24, 2009.<sup>32</sup> In this regard a \$100 million agreement was signed between the two governments for financing ten projects within the framework of the Pakistan-Italian Debt for Development Swap Agreement. The Agreement was part of the commitments made at the donor's conference in Tokyo earlier. According to the agreement, the development projects would be sponsored by the federal, provincial and local governments, non-governmental organizations, or channeled through the relevant UN organizations. Projects would be related to health, education, agriculture, basic infrastructure and environment protection. The agreement envisaged that a management committee for the selection, approval, monitoring and evaluation of the projects would be constituted.<sup>33</sup>

It was mutually agreed to allocate \$10 million for the Internally Displaced Persons (IDPs). The Debt for Development Swap agreement includes two mega integrated projects: one for the Northern Areas that focuses on the Central Karakorum National Park and its surrounding rural areas and the other on the Frontier Regions of the Federally Administered Tribal Areas (FATA). Other features of the agreement include the commercialization and promotion of olive cultivation and olive products in Balochistan, NWFP and Punjab by the public sector, and the construction of an International Centre for Reconstructive Surgery and Vocational Training and Shelter Home for assisting women victims of acid attacks in Punjab. The project would support the physical and social rehabilitation of the victims. Initiatives would also be taken in Balochistan, Punjab and Sindh to establish kidney and eye care services and micro credit schemes.<sup>34</sup>

The Debt for Development Swap is seen as a very important initiative of the Italian government, for it scrapes off debt through support for development projects, which are beneficial for the country's society and economy. In this regard in December 2009, the governments of Italy and Pakistan also approved two other projects -Early Recovery of Agriculture and Livelihood for Conflict Affected Districts of Swat, Shangla, Buner and Lower Dir (NWFP) and Area Development Project for Frontier Regions – for the IDPs and FATA regions respectively. The estimated cost of these projects is Rs.1.4 billion. The project titled "Early Recovery of Agriculture

---

<sup>32</sup> Italian press agency Adnkronos International (AKI), "Pakistan: Italy Converts \$100 million Debt into Aid", at <http://www.adnkronos.com/AKI/English/Politics/?id=1.0.2039459866>.

<sup>33</sup> "Italy, Pakistan Sign Debt Swap Agreement", *Daily Times*, 19 September 2009.

<sup>34</sup> "Italy to Finance \$100m Projects", *Dawn*, 25 July 2009.

and Livelihood for Conflict Affected Districts of Swat, Shangla, Buner and Lower Dir (NWFP)" costing Rs. 713 million (\$8.7 million), would be administered through PaRRSA (Provincial Relief, Rehabilitation & Settlement Authority). The project was aimed at reviving the pre-crisis level of agricultural production in conflict affected areas and improving the population's income and living conditions through income generating activities, including cash assistance for work on reforestation, orchard management and rehabilitation of the irrigation system. The project for the frontier regions of FATA for which Rs.700 million (\$8.2 million) were allocated would be implemented through the FATA Secretariat. The aim of the project was to help in poverty alleviation, by increasing incomes and creating opportunities through a mix of social and economic interventions. It would also secure another purpose i.e. bringing the frontier regions into the country's mainstream economic system.<sup>35</sup>

The Italian debt swap funds would finance these projects. Italy has also allocated \$10 million for setting up a plant to locally produce self-destructive syringes under a joint venture between an Italian company and a Pakistani counterpart.<sup>36</sup>

### **Humanitarian and Emergency Assistance**

#### *Earthquake relief assistance*

Pakistan was hit by a devastating earthquake of great intensity on October 8, 2005. Italy pledged US\$12.24 million for relief and rehabilitation work. It also donated US\$93,821 from other sources. Italy's rescue and medical team also helped out in the earthquake affected areas.<sup>37</sup>

At the inaugural session of the Pakistan-Italy Joint Economic Commission which was held in Rome on March 23, 2006, the Italian government cancelled its official debt of US\$90 million against Pakistan government's earthquake related rehabilitation and reconstruction expenditures.<sup>38</sup>

---

<sup>35</sup> Press Release No. 464, Government of Pakistan, 19 December 2009, available at <http://www.pid.gov.pk/press19-12-09.htm>.

<sup>36</sup> "\$10m Credit for Local Production of Syringes", *The Nation*, 20 November 2009, at <http://nation.com.pk/business/20-Nov-2009/10m-credit-for-local-production-of-syringes>.

<sup>37</sup> Foreign Office, *Year Book 2005-06*, p. 93.

<sup>38</sup> Ibid.

### **Italian humanitarian aid to North West Frontier Province (Khyber Pakhtunkhwa)**

When a humanitarian crisis developed in the NWFP following the military operations by the Pakistan Army against the Taliban militants, Italy extended emergency assistance to the displaced population by sending two airplanes on May 23, 2009 and June 13, 2009 with humanitarian and relief goods worth €660,000. Italy also provided around €3 million to the UN agencies for relief work in the NWFP.<sup>39</sup>

### **Italian investments in Pakistan and prospects for future Pakistan-Italy collaboration**

Italian companies began to invest in Pakistan when the Opal laboratories were setup in collaboration with an Italian party in 1963.<sup>40</sup> Italian investments in Pakistan have been focused on the automobile, oil and gas, airline, information technology, pharmaceutical, textile and transportation sectors. Italian companies have been involved in building large hydro power projects in Pakistan, including the Tarbela Dam and Ghazi Barotha power project.<sup>41</sup> Several Italian companies have expressed interest in investing or boosting their investments in Pakistan, for the country's liberal economic policies that include no restriction on equity, exemption of foreign companies from taxes and duties are seen as advantages.

Ente Nazionale Idrocarburi (ENI) one of the largest Italian oil and gas exploration companies has expanded its business in Pakistan through investment in the oil and gas sectors. A cooperation agreement was signed between ENI and the Government of Pakistan on March 18, 2009. The agreement envisaged that ENI and the Pakistan government would together identify and explore mutually beneficial new business opportunities in and outside Pakistan and collaborate in terms of joint technical studies and joint initiatives and potential business opportunities in the oil and gas upstream and downstream sectors in Pakistan. The agreement envisages technology transfer through various means between

<sup>39</sup> "Italy and Pakistan: Exploring Business Opportunities", *Investors Business and Financial Journal* (July 2008), at <http://www.jang.com.pk/thenews/investors/jul2008/p4.htm>.

<sup>40</sup> Moonis Ahmar, *Pakistan-Italian Relations*.

<sup>41</sup> "Hafeez Shaikh Leaves for Rome to Address Investment Mode" (27 September 2004), at <http://www.privatisation.gov.pk/Handout/HO-AR-04/September-04/HO-27904%20Hafeez%20Shaikh%20Leaves%20for%20Rome%20to%20Address%20Investment%20Moot%20handout.htm>.



Pakistan State Oil and ENI including inter-company staff secondments, training sessions and technical and operating activities reviews.<sup>42</sup>

Another agreement was signed on December 13, 2012, between ENI and Oil and Gas Development Company Ltd (OGDCL). It envisaged the acquisition by ENI of 25% of its shares and extending to it the license to explore offshore Indus Block G, located in Pakistan's Indus Basin.<sup>43</sup>

With this acquisition, ENI has further strengthened its presence in offshore Pakistan, for the Company is already participating in other offshore blocks such as Indus Block C (ENI 60%) and Block N (ENI 70%), which are close to the newly acquired offshore Indus Block G.<sup>44</sup>

ENI has been present in Pakistan since 2000 and is the largest international oil producer in the country, with an average equity production of approximately 58,000 barrels of oil per day.<sup>45</sup> Pakistan offers immense investment opportunities, particularly in the field of hydrocarbons as there is a surge in demand for energy in the country, owing to high economic growth and improvement in the living standard of the people. Other Italian companies including utility provider ENEL and national grid operator Terna are also eager to invest in Pakistan's oil and gas, power and textile sectors.<sup>46</sup> These Italian companies may also explore possibilities of investing in related sectors like power generation and petrochemicals.

An important potential sector for Pakistan-Italy joint ventures is the pharmaceutical field in Pakistan. Many Italian pharmaceutical companies have expressed a keen interest in investing in Pakistan. Pakistan is being seriously considered as a base for pharmaceutical products,<sup>47</sup> for the cost of production of pharmaceuticals is very high in Italy. The Pakistan

---

<sup>42</sup> "Ministry, Italian Company sign MOU on Oil and Gas exploration", 19 March 2009, at [aaj.tv/2009/03/ministry-italian-company-sign-mou-oil-gas-exploration/](http://aaj.tv/2009/03/ministry-italian-company-sign-mou-oil-gas-exploration/).

<sup>43</sup> "Eni Signs Agreement for the Acquisition of a New Exploration Block Offshore Pakistan", 13 December 2012, available from [http://www.eni.com/en\\_IT/media/press-releases/2012/12/2012-12-13-promising-area-offshore-pakistan.shtml?shortUrl=yes](http://www.eni.com/en_IT/media/press-releases/2012/12/2012-12-13-promising-area-offshore-pakistan.shtml?shortUrl=yes).

<sup>44</sup> Ibid.

<sup>45</sup> Ibid.

<sup>46</sup> "ENI Ready for Transfer of Technology, Expertise to Pakistan", *Pakistan Times*, at <http://pakistanimes.net/pt/detail.php?newsId=4840>.

<sup>47</sup> "Italy Considering Manufacturing Pharmaceutical Products in Pakistan", *Business Recorder*, 09 January 2010.

Pharmaceutical Manufacturers Association (PPMA) is very keen that the government should arrange meetings of Pakistani pharmaceutical manufacturers with Italian pharmaceutical companies to explore joint ventures in the pharma industry. The low cost of production in Pakistan and the very high quality of Italian pharmaceutical products would form ideal joint ventures<sup>48</sup>. There is a need to hold seminars in both the countries, so that Pakistani and Italian pharmaceutical companies are able to exchange views on the possibilities of establishing joint ventures in various pharmaceutical fields, including biotech facilities, active pharmaceutical ingredients (APIs) and clinical research organizations (CROs). The pharmaceutical business in Pakistan is growing at the rate of 21 percent, so Italian pharmaceutical companies are eager to explore the prospects of mutual cooperation in this field. Besides, major pharmaceutical companies from all over the world are already operating in Pakistan. The Italian companies do not want to be left out.

Another sector in which Italians are providing their expertise and technology to Pakistan is the production of olive oil in Pakistan. A mega project for the promotion of olive oil products, which is aimed at poverty alleviation and economic development is on the anvil. It is to be funded by the Italian Debt for Development Swap scheme. Pakistan is a big importer of olive oil and thus its economy has to bear the burden of importing this costly commodity. Pakistan is basically an agrarian country. Its climate and soil is very suitable for the plantation of olive trees. Certain areas of Potohar, Khyber Pakhtunkhwa and FATA have been identified as suitable for olive production.<sup>49</sup> Pakistan is also seeking Italian investment to increase per acre yield and improve the quality of crops. The country has expressed interest in discussing ways to establish cooperation with Italy for augmenting the production of sugar beet, as Italy gets a higher yield of the product by applying advanced technology<sup>50</sup>. Italians also specialize in mineral water.

Pakistan's marble sector is in dire need of help. The country has reserves of millions of tons of marble and chromite in Swat district, Bajaur agency and Khyber Pakhtunkhwa. Marble and granite are among the major minerals

---

<sup>48</sup> "\$10m Credit for Local Production of Syringes", *The Nation*, 20 November 2009.

<sup>49</sup> "Italians Keen to Invest in Olive Oil Production", *Daily Times*, 09 April 2009.

<sup>50</sup> "Pak-Italy Parleys to Focus on New Initiatives: Farhatullah Babar", *The Nation*, 29 September 2009.

extracted in Pakistan after coal, rock salt and limestone. China, Italy and the USA have shown keen interest in Pakistan's marble reserves in view of the growing world consumption of these minerals. To attract foreign investors, the government should ensure security and proper law and order situation in Swat and adjacent districts. The president of the Italian Marble Association, Cesare Bellamoli appreciated the quality of Pakistani marble and expressed his desire to work with Pakistani entrepreneurs to fully develop the marble industry in Pakistan.<sup>51</sup> Pakistan could greatly benefit from the Italian marble cutting technology, as techniques practiced in Pakistan for cutting marble result in hefty wastage.<sup>52</sup> In this regard, Italy has already set up a marble factory cum training institute at Risalpur. Italian investors could invest to install hi-tech plants and machinery to produce quality tiles, slabs and blocks that would meet international standards. Quality marble has a good market in most advanced countries.<sup>53</sup> Another field which offers Italian companies tremendous potential for profitable investment is the construction sector in Pakistan. This would enable Pakistan to meet its infrastructure challenges.<sup>54</sup> Presently numerous infrastructure development programmes are in progress in Pakistan, which include a large number of flyovers, under passes, highways, tunnels, dams, roads and industrial projects. Italian entrepreneurs have ideal opportunities to set-up joint ventures with local entrepreneurs for such projects, particularly a mass transit system that connects Gwadar to the Central Asian Republics.<sup>55</sup>

Moreover, Pakistan is an attractive market for the manufacturers of textile machinery all over the world. The textile industry plays a major role in Pakistan's economy. Most of the Pakistani textile exports are sold in European markets; thus, it is very necessary for the Pakistani textile industry to be equipped with European machines. Likewise, it must cater to the standards in product quality and design in that choosy market. Pakistan, being a major cotton producing country could benefit greatly from the modern machinery and technical knowhow and experience that

---

<sup>51</sup> Razi Syed, "War on Terror Hampering Chromites Exports", *Daily Times*, 21 September 2008.

<sup>52</sup> "Pak-Italy Parleys to Focus on New Initiatives".

<sup>53</sup> See at [http://www.buildasia.net/building\\_industry.htm](http://www.buildasia.net/building_industry.htm).

<sup>54</sup> Investment Division & BOI, Press Release, "Interactive Meeting of Pakistan-Italy Businessmen held at Investment Division & BOI under the Chairmanship of Secretary ID&BOI", at <http://www.pakboi.gov.pk/Press/PDF/April,%202008/21%20april,2008.pdf>.

<sup>55</sup> [http://www.buildasia.net/building\\_industry.htm](http://www.buildasia.net/building_industry.htm).

could be provided by Italy. Such assistance could go a long way in enhancing the value of the available raw material through improvements in ginning, spinning, weaving or manufacturing other sorts of finished products. If Italian investors invest to upgrade Pakistan's textile industry, they would also get a larger share in the Pakistani market.<sup>56</sup>

Joint ventures to improve the quality of the manufacturing and production of auto parts, jewelry, textile, footwear, processed food, agriculture and agro-processing, livestock and dairy, gemstone technology, marble quarrying and cutting, oil exploration, energy, textile and leather value addition would prove to be a mutually beneficial exercise. The horticulture and floriculture sectors also offer sound opportunities to foreign investors. In Pakistan, flowers are mostly produced in winters, while in Europe there is low production of flowers in that season, owing to snow. Most festive in Europe is the winter season. The promotion of floriculture would meet the demand in the European market.<sup>57</sup>

#### **Pakistan-Italy cooperation in archaeology**

Italy has been very active in Pakistan in the cultural field. The Italian archaeological mission in Swat has been active in the country over the last 60 years. It is credited with the restoration of the important Gandhara sites of the Buddhist era, and very recently the discovery and restoration of the Udegram mosque<sup>58</sup>. Italian archaeologists have also been working in Sindh. In 2013, Italy for the first time co-sponsored the now famous Karachi Literature Festival, which is widely seen as an important instrument for promoting art, literature and culture.<sup>59</sup>

The EV-K2-CNR is an independent, private, non-profit association, supported by the Italian Ministry of Foreign Affairs for the promotion and development of technological and scientific research in the Hindukush-Karakorum-Himalaya regions. EV-K2-CNR is one of the major partners of

<sup>56</sup> Amanullah Bashar, "Pakistan an Attractive Market for Textile Machinery Producers", 16-22 April 2001, available at <http://www.pakistaneconomist.com/issue2001/issue16/i&e2.htm>.

<sup>57</sup> "Horticuture Development and Export Board Plan Underway to Promote Flower Export" at [http://www.phdeb.org.pk/topstoriesEvents/events\\_detail.php?id=3145](http://www.phdeb.org.pk/topstoriesEvents/events_detail.php?id=3145).

<sup>58</sup> Tazeen Akhtar, "Italy - Pakistan Relations", 2 June 2013, available at [www.pakistanintheworld.com/](http://www.pakistanintheworld.com/).

<sup>59</sup> Ibid.

the Government of Pakistan for the establishment and management of the Central Karakorum National Park.

Italy has been the first to understand the historical sensitivities of Pakistan and worked with great concentration on the archaeological sites of the Islamic period in the country. Their discovery of a mosque of the Ghaznavid period at Raja Gira was of great significance to the preservation of historical sites of the early Islamic period in Pakistan.<sup>60</sup>

Given the consistent nature of Pakistan-Italy relations, especially in the economic and trade sectors, one can expect further expansion of the existing bilateral ties in all sectors. Pakistan can greatly benefit from Italian technological advancements. Similarly, Italians can take advantage of the special trade incentives being offered by the Government of Pakistan and the plentiful cheap and skilled labour in the country.

---

<sup>60</sup> Ahmar, *Pak-Italy Relations*.