



CHECKLIST FOR INDUSTRIALIZATION



December 2023

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Background

Pakistan has prematurely deindustrialized. Investment as a percentage of GDP significantly lags the region. FDI is not export oriented and is mainly in consumer products that serve the domestic market. Local business is also inward focused with major investments directed to guaranteed return projects. Pakistan's share in world exports has declined. Exports are also narrowly based and over-reliant on the USA and Europe. Agriculture, the bedrock of Pakistan's economy and provider of livelihoods to the vast majority, is struggling to feed the growing population at an affordable cost and Pakistan is now a net importer of food products. The sector is also unable to provide enough cotton, which is the major input to the country's largest export industry. With a disproportionate burden of taxes on a few taxpayers, long periods of unrealistic exchange rates, an FTA with China which, despite renegotiation, fails to fully serve Pakistan's interests, frequent power outages now replaced with an uncompetitive energy cost, smuggling, under-invoicing, illicit trade, the crowding out of the private sector from borrowing, import and FX controls have all combined to reduce the role of manufacturing in the economy. Unable to meet domestic demand from local production of even basic goods, reliance on imports has increased. As a result, Pakistan suffers from recurring external account crises, leading to a need for handouts from friendly countries and repeated IMF Programs. Front-loaded, revenue centric targets as part of IMF programs have also failed to address the fundamental flaws in the economy, though the primary reason is lack of political will.

The Pakistan Business Council (PBC), through its "Make-in-Pakistan" thrust has long advocated industrialization as the means of generating employment, promoting value-added exports and encouraging import substitution in a sensible and sustainable manner. Aside from broadening the tax base, it advocates for additional tax revenue to flow from higher profits of business, not from higher rates of tax or new taxes. PBC also recommends consensus between political parties and key stakeholders on a minimum set of fundamental reforms. This is essential to provide assurance of continuity and consistency in the policy framework, as also to mobilize additional resources to fund investment in socio-economic development. Pakistan stands at the bottom of South Asia in virtually all socio-economic indicators.

Recently the government has embarked on a fresh impetus to revive industrial growth. This checklist is drawn from the PBC's more detailed studies available on its web site and its earlier checklist published in May 2021: www.pbc.org.pk. Much of PBC's advocacy addresses the three platforms of "Make-in-Pakistan", namely "Grow More/Grow Better", "Make More/Make Better" and "Serve More/Serve Better".

The checklist provides an action toolkit for policy makers' attention and is split into four parts:

01

Checklist for Promoting Corporatization and Formalization of Business

This sets out the basic enablers for the formal sector to gain scale and competitiveness to galvanize effective action.

02

Export Checklist

The main thrusts are to promote exports. Exports are the only sustainable way to balance the external account and achieve solvency and autonomy for the country.

03

Import Substitution Checklist

The key actions to facilitate import substitution in a sensible and sustainable manner without indefinitely undermining consumer value and choice.

04

Priority Sectors for Growth

These are the main sectors identified for special focus

A person in a dark suit and purple tie is holding a tablet. The background is a teal gradient with various white icons floating around, including a house, a cloud, an envelope, a location pin, a person, a Wi-Fi symbol, a globe, a magnifying glass, a shopping cart, a speech bubble, a download arrow, and a Twitter bird. The text 'Checklist for Promoting Corporatization and Formalization of Business' is overlaid on the image, with a vertical orange bar to the left of the text.

Checklist for Promoting Corporatization and Formalization of Business

Key Measures	Immediate	Medium Term	Longer Term
01 Level the playing field for the incorporated formal sector	<ul style="list-style-type: none"> ▪ Taxes should be simple, predictable and supportive of business growth and for formalization of the economy. The aim should be for higher tax revenues to flow from a combination of improved profitability of existing taxpayers and from broadening of the tax base. Industry which represents 20% of GDP presently contributes a disproportionate 56% of taxes. It should be facilitated to create more jobs, boost value-added exports and promote sensible import substitution. The impact of taxes on manufacturing vs commercial importers and real estate investors should be reviewed, as should the impact on corporates vis-à-vis other forms of business structures, such as Association of Persons. There should also be a level playing field in the holding periods for capital gains tax on sale of company shares vs. real estate. One of the major reasons why those in the informal sector resist joining the tax base is the threat of harassment by the FBR and the complexity of tax returns. Returns should be made simpler and easier to file, using digital means. Also, the fragmentation between federal and provincial taxation and returns should be resolved to make it easier to comply. ▪ FBR tax targets must not be set without creating capacity and capability through technology and fresh talent. Otherwise, the FBR has no choice but to pursue existing tax payers for more revenue. Separate targets should be set for revenue from existing and new taxpayers. Targets for existing taxpayers should be in line with expected growth in the nominal GDP. The target for new taxpayers should be set in line with the evolving capability and capacity of the FBR. Tax refunds due should be excluded when assessing performance of the FBR against either of these targets. On the other hand, taxpayers should be allowed to offset assessed refunds against liability for any other type of tax e.g., GST, Excise Duty etc. 		

Key Measures	Immediate	Medium Term	Longer Term
02 Broaden the tax base	<ul style="list-style-type: none"> ▪ The Pakistan Business Council estimates a potential annual tax revenue of Rs. 747 Bn from wholesale, retail and real estate sectors. There is also untapped tax revenue potential for provinces of Rs. 372 Bn from agriculture tax and Rs. 380 Bn from property taxes. Currently all provinces put together raise just Rs. 3 Bn from agriculture tax and Rs. 20 Bn from property tax. Higher provincial tax revenues should help the case for renegotiating the National Finance Award which is unsustainable for the federal government in its current form. ▪ Restore tax credit to incentivize the formal sector to minimize its transactions with the informal sector ▪ Mine the significant withholding tax data provided on the informal sector ▪ Restrict utility connections to businesses that file tax returns ▪ Place a maximum limit on use of cash for major purchases. Incentivize use of credit/debit cards and other documented transaction methods. 		
03 Promote scale	<ul style="list-style-type: none"> ▪ Fiscal policy should support capital accumulation and scale through consolidation in the form of groups. Dividends from subsidiaries to the holding company and from the holding company to its shareholders should not be taxed multiple times. This is the global norm and was applicable in Pakistan from 2008 until withdrawn in 2021. ▪ Promote wider shareholding by restoring tax credit for stock market listing 		

Key Measures	Immediate	Medium Term	Longer Term
04 Stop treating the corporate sector with suspicion	<p>Amend the Companies Act 2017 to remove:</p> <ul style="list-style-type: none"> Section 452 – Global Register of Assets. This is superfluous after the OECD accord on exchange of information on assets, it has no global precedence and serves no purpose for investors or the SECP. The latter acts merely as a post office for the FBR. However, it does compromise privacy of those in the corporate sector and discourages competent people from accepting directorship positions. Narrow the definition of related parties under Section 208. Currently it covers siblings, adult children and parents, information from whom is not readily available to disclose. 		
05 Reduce bureaucratic regulations		<p>Many of the current regulations adversely impact the formal sector only. The informal sector evades these, and authorities are unable or unwilling to pursue them. Digitization of simpler and fewer regulations would address both cost and ease of doing business. The Pakistan Regulatory Modernization Initiative (PRMI) process should be accelerated.</p> <p>The Pakistan Single Window provides a good model to emulate.</p>	

Key Measures	Immediate	Medium Term	Longer Term
06 Stem smuggling, counterfeiting, grey production, adulteration, under-invoicing and misdeclaration of imports	<ul style="list-style-type: none"> ▪ Develop a strong political consensus to fight informality in the economy ▪ Starve the flow of foreign currency that funds smuggling and under-invoicing ▪ Create transparency of transactions by limiting the use of cash ▪ Broaden the tax base to include all points of sale through which illicit goods are sold ▪ Reduce incentives to evade through lower taxes and levies; ▪ Raise the cost of evasion through tighter enforcement; ▪ Provincial government co-operation to prevent sale of illicit items in their jurisdictions; ▪ Use technology and labelling measures to make it difficult to evade; ▪ Exchange import/export data with key trading partners through Electronic Data Interchange (EDI) to stem under-invoicing; ▪ Place quantitative limits on what can transit to Afghanistan. Collect duty and sales tax in advance and refund to Afghan government on exit from Pakistan. Strengthen border controls to prevent re-entry of goods into Pakistan. Restrict payment for transit trade to letters of credit issued by Afghan based banks. ▪ Refocus provincial Food Authorities on items that are more vulnerable to adulteration; ▪ Enable effective prosecution and penalize the guilty in the extended chain of evasion. ▪ Create further transparency in the valuation of imports of mis-declaration-prone items by sharing declared values and allowing opportunity of challenge. 		

Key Measures	Immediate	Medium Term	Longer Term
07 Remove onerous powers of NAB that restrict Public Private Partnerships and paralyse government decision making	<p>Reforms of the NAB law:</p> <ul style="list-style-type: none"> ▪ Restrict cause for action to unaccounted wealth of public servants. ▪ Exclude outcomes of decisions taken in good faith and with due diligence as grounds for action by NAB ▪ Revise investigation threshold to Rs. 2 Bn ▪ Investigations on privatization may not be started after the lapse of one year from privatization (as per the Privatization Act) ▪ Amend law to provide for pre and post arrest bail ▪ Limit the remand period for trial to 45 days ▪ Maintain confidentiality over investigations until indictment 		



Exports Checklist

Key Measures	Short Term	Medium Term	Longer Term
01 Articulate an Industrial Policy	<ul style="list-style-type: none"> Without clear sectoral priorities, it is not possible to shape specific vertical incentives. Horizontal i.e., general incentives may not suffice to promote industrialization targeted at export markets. 		
02 Reliable energy at a competitive cost	<ul style="list-style-type: none"> Stop encumbering industry with burden of capacity payments for idle generation capacity, inefficiency in transmission, theft in distribution, and of cross-subsidies to low-income domestic users. This undermines competitiveness and job creation. Marginal cost-based tariffs will promote jobs that lead to disposable incomes and higher exports as also import substitution as industry becomes cost competitive. Marginal price power for industry in the winter to promote higher capacity absorption. Maintain captive power production until the grid can reliably substitute at a comparative cost. Realize that substantial investment was made by industry in captive generation when the grid could not be relied upon. Enhance incentives for non-zero-rated export sectors to offset uncompetitive energy tariffs 		
03 Competitive PKR	<ul style="list-style-type: none"> Maintain PKR at a Real Effective Exchange Rate of about 100% 		
04 Release exporter's cash flow	<ul style="list-style-type: none"> Automate rebate settlement via bank credits; Release past rebate and tax dues. For SMEs, fix a standard per-unit export rebate for key items. The present schemes for reclaiming duty drawbacks are too complex to follow; 		
05 Broaden the export basket	<ul style="list-style-type: none"> Make the Export Facilitation Scheme more export friendly; Incentivize export of services (and remittance of export proceeds of services) through rebates similar to rebates for goods; Remove GST on services provided to foreign clients by call centres, BPOs etc. SBP should allow the exporters of IT and IT-enabled services that have a sound track record to utilize their annual export retention (now 50%) for investing abroad to grow their marketing & HR networks. This will enable the development of exportable solutions from Pakistan. Also, SBP should remove the restriction of a single investment in 	<ul style="list-style-type: none"> Incorporate coding in school education Develop the light engineering sector Establish design centres for footwear, leather, Furniture, Cutlery, Surgical Instruments and Sports Goods Promote medical tourism 	

Key Measures	Short Term	Medium Term	Longer Term
05 Broaden the export basket	<p>any country. The highest exporter currently exports software valued at under \$89 Mn pa. The existing limit of 10% is inadequate to acquire medium sized technology companies in the West in particular. Global footprint will also add to the credibility of Pakistan's IT/ IT-enabled industry. As exporters can retain 50% of exports in foreign currency, there will be no incremental outflow as a result of investment.</p> <ul style="list-style-type: none"> Restore tax exemption for IT, IT-enabled services, BPOs, Call Centre sectors. Also, for provision of technical and managerial services to overseas clients and on royalties earned from use of Pakistan's Intellectual property abroad. Implement the National Engineering Standards Strengthen the National Tariff Commission Classify Pharmaceuticals among zero-rated exports and utilize the Central Research Fund to develop solutions for export markets Allow exporters to obtain all imported inputs at globally competitive cost Have a network of accredited laboratories in Pakistan whose test results would be acceptable internationally 	<ul style="list-style-type: none"> Incentivize upgradation of textile exports to meet growing demand for items based on man-made, technical & performance fabrics. Address tariffs on key inputs for this. Concessional funding of investment in packing houses, processing units, cold storages, reefer trucks, etc., for fruits meat, seafood and vegetables. Attract large international companies which process food products such as potatoes, citrus, and tomatoes by securing their Intellectual Property Rights. Introduce off-season fruits and vegetables for all-year processing, bring new seed varieties of fruits and vegetables and upgrade the cold chain for the safe transit from farm to the factory gate Provide space to the private sector to construct cold storages for fresh produce at air and seaports 	

Key Measures	Short Term	Medium Term	Longer Term
05 Broaden the export basket		<ul style="list-style-type: none"> Lease land in disease free quarantine zones for rearing traceable breeds of animals. Discontinue price controls and “Meatless days” to promote scale in meat production. Graduate to Stage 3 of Foot and Mouth Disease Program to enable export of frozen meat. Provide concessional credit for the cold chain. 	
06 Diversify Export Markets	<ul style="list-style-type: none"> Seek tariff parity with Bangladesh for access to Japan, Canada and Australia 		
	<ul style="list-style-type: none"> Use EDF for up-front market development of non-core exports in non-core markets Establish freight links with Central Asia Negotiate improved tariffs for Rice and Cement into Kenya and South Africa respectively in exchange for Tea and Coal from these countries Operationalize the Export Credit Bank to provide export credit guarantee for exports to Africa and Central Asia. Exporters are comfortable in dealing with customers in Europe and USA and are reluctant to take risks in exports to Africa and Central Asia. 		
07 General	<ul style="list-style-type: none"> Seek travel advisory relaxation from the USA, Canada, EU, UK and Japan for main commercial cities of Pakistan 		
	<ul style="list-style-type: none"> Conduct PAKQUALITY brand development along the TURQUALITY lines 		
		<ul style="list-style-type: none"> Skills and design development especially for the leather, sports and surgical goods, cutlery etc. 	<ul style="list-style-type: none"> Heightened focus on education of science, digital technology & mathematics

Key Measures	Short Term	Medium Term	Longer Term
08 Preserve EU GSP+ Status	<ul style="list-style-type: none"> Active government engagement, supplemented by private sector lobbying with the EU A national programme to gear-up exporters to comply with the EU Border Carbon rules expected to be imposed in 2026 		
09 Promoting SMEs	<ul style="list-style-type: none"> Provide targeted TERF-like long-term loans to SMEs with government stop-loss guarantees to develop the export supply chain 		
10 Export-focused FDI Policy	<ul style="list-style-type: none"> Differentiate positively in favour of export oriented FDI, especially in the agriculture sector. Bulk of the current FDI is in consumer products, telecom and guaranteed return power/energy sectors, which whilst serving a useful function, generate no exports or meaningful import substitution. 		
11 Affordable land with adequate infra-structure		<ul style="list-style-type: none"> “Walk the talk” on SEZs. Provide long-term leases to industries on a “plug & play” system with adequate utilities. 	
12 Make cotton available	<ul style="list-style-type: none"> Address seed and other deficiencies to reverse the dwindling availability of cotton, an essential input for Textiles 		

A large stack of colorful shipping containers in an outdoor yard. The containers are stacked in several rows, with colors including orange, blue, red, and teal. A blue truck is parked in front of the containers. The sky is a mix of orange, pink, and blue, suggesting a sunset or sunrise. The text "Import Substitution Checklist" is overlaid on the image in white, with a yellow vertical bar to its left.

Import Substitution Checklist









Key Measures	Immediate	Medium Term	Longer Term
01 Articulate an Industrial Policy	<ul style="list-style-type: none"> Without clear sectoral priorities, it is not possible to shape specific vertical incentives. Horizontal i.e., general incentives may not suffice to promote industrialization or lead to import substitution. 		
02 Reliable energy at marginal cost	<ul style="list-style-type: none"> Stop encumbering industry with burden of capacity payments for idle generation capacity, inefficiency in transmission, theft in distribution and cross-subsidies to low-income domestic users. This undermines competitiveness and job creation. Marginal cost-based tariffs will promote jobs that lead to disposable incomes. Also import substitution as domestic industry becomes cost competitive 		
03 Lease land at affordable cost along with utilities		<ul style="list-style-type: none"> "Walk the talk" on SEZs. Land in cities is expensive and infrastructure is poor. Provide "Plug & Play" facilities to expedite industrialization. 	
04 Remove duties on industrial inputs	<ul style="list-style-type: none"> Accelerate cascading tariffs on raw materials and intermediate items for industrial inputs that are not available in Pakistan 		
05 Supportive PKR	<ul style="list-style-type: none"> PKR at Real Effective Exchange Rate of about 100 to ensure imports are not "subsidized." 		
06 Promote Industrialization	<ul style="list-style-type: none"> "Allow duty, GST and Advance tax-free import of plant and machinery to kickstart industry. Restore tax credit on BMR Encourage "Greenfield" investment by differentiating "Greenfield" from "pioneer" investment Minimize under-invoicing through Electronic Data Interchange (EDI) with key trading partners Place quantitative limits on what can transit to Afghanistan. Collect duty and sales tax in advance and refund to Afghan government on exit from Pakistan. Strengthen border controls to prevent re-entry of goods into Pakistan. Restrict payment for transit trade to letters of credit issued by Afghan based banks. 		

Key Measures	Immediate	Medium Term	Longer Term
06 Promote Industrialization	<ul style="list-style-type: none"> ▪ Curb under-invoicing by making imports via PRAL or CARE transparent so that valuations can be challenged. 		
07 Promote SMEs	<ul style="list-style-type: none"> ▪ Provide targeted TERF-like long-term loans to SMEs with government stop-loss guarantees to promote import substitution. 		
08 Import-Substitution FDI	<ul style="list-style-type: none"> ▪ Differentiate positively in favour of import substitution oriented FDI, especially in the agriculture sector. 		
09 Time and performance-based incentives	<ul style="list-style-type: none"> ▪ Provide production of essential items, performance-contingent incentives for a limited time to gain scale and competitiveness vs imports. Progressively reduce incentives to minimize impact on consumer value and choice. 		

Priority Sectors for Growth



Primary Criteria/Objectives

01		Food security, affordability and agri-inputs for industry
02		Creation of jobs, especially for youth in the knowledge economy
03		Export potential
04		Import substitution
05		Low energy intensity projects, given the high tariffs
06		Balance between rural and urban growth
07		Responsibility towards the environment
08		Gender inclusivity

Priority	Sectors	Scope for acceleration
Food security, rural economy, agri-inputs for industry leading to import substitution and exports	Agriculture/Horticulture/ Livestock/Fisheries	<ul style="list-style-type: none"> ▪ Bank credit to farmers; ▪ Vendor financing, contract farming by industry and corporate farming. ▪ Emulate experience of Rafhan Maize and K&N's in Maize and Poultry respectively; ▪ Post-harvest collateralized funding; ▪ Farm implements (drip irrigation to preserve water, land-levelers, small farm tools); ▪ Farm mechanization (aerial survey, sowing, harvesting, mobility); ▪ Seed development; ▪ Oil extraction from indigenous seeds (Sunflower, Cotton, Olives etc); ▪ Fruit and Vegetable Processing and packing; Cold Chain (Storage and Transportation); Livestock rearing; ▪ Frozen Meat packing and transportation; Frozen seafood storage and transportation ▪ Import of farm machinery especially tractors of higher horsepower & threshers to reduce wastage
Create employment in the knowledge economy to promote exports. Also promote gender inclusivity	Exportable services Software development Call Centers <ul style="list-style-type: none"> ▪ Back Office Processing. Engineering Design Services. Accounting and Consulting. Medical Tourism. 	<ul style="list-style-type: none"> ▪ Provide parity in incentives between export of services and goods (rebates, concessional credit, federal/provincial fiscal relief etc.); ▪ Promote skills for export of human capital to ageing countries; ▪ Close the digital divide through availability and affordability of broadband
Extraction of indigenous resources/exports	Mining	<ul style="list-style-type: none"> ▪ Maximize domestic processing to add value and to retain strategic minerals for local use
Import substitution	Chemicals	<ul style="list-style-type: none"> ▪ The entire plastics complex
Import substitution/exports	Engineering	<ul style="list-style-type: none"> ▪ Light engineering ▪ Auto parts
Import substitution/exports	Defence Equipment	<ul style="list-style-type: none"> ▪ Private sector/Pakistan Aeronautical Complex other MoD establishments collaboration on precision parts, computer services, etc.,

Priority	Sectors	Scope for acceleration
Exports/Gender Inclusivity	Value added Textiles	<ul style="list-style-type: none"> FDI especially into technical and performance textiles
Exports, Gender Inclusivity	Apparel	<ul style="list-style-type: none"> Chinese investment to qualify as “Made in Pakistan” in USA/Europe and to replace high-labour cost production for the Chinese market. More women especially in apparel stitching
Import substitution/ exports	Less sophisticated electronic medical devices and disposables	<ul style="list-style-type: none"> Leverage low labor cost to partner MNC/Chinese R&D focused companies for local/regional markets. Emulate Mexican supplies to USA of medical devices.
Exports	Surgical instruments and cutlery	<ul style="list-style-type: none"> Sophistication and branding
Scale, competitiveness, Import substitution/ exports	Pharmaceuticals	<ul style="list-style-type: none"> DRAP should itself meet global certification standards; DRAP's role be limited to setting and enforcing standards. Pricing to be Ministry of Commerce's responsibility; No price controls other than for drugs on the National Essential Medicine List; Government support and procurement assurance for vaccines; Export intelligence especially on opportunities in Africa and Central Asia

About the PBC

The Pakistan Business Council (PBC) is a research-based business advocacy platform established in 2005, now supported by over 100 private sector local and multinational businesses with significant investment in and long-term commitment to sustainable growth of the country. PBC's major objectives are to advocate policies that lead to creation of jobs, value-added exports and reduction in import reliance through improved competitiveness of manufacturing, services and the agriculture sectors. It also promotes formalization of the economy. Further information on the PBC is available on: www.pbc.org.pk.



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**NAVEENA
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SOORTY
Winda City Zindagi



**Standard
Chartered**

systems

TAPAL

**TATA
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TPL



Tufail
Chemical Industries Ltd.

UBL
where you come first



Young's

The PBC Affiliates





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