The Pakistan Business Council

FOSTERING ECONOMIC GROWTH

(A Company set up under Section 42 of the Companies Ordinance 1984)

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Mr. Jam Kamal Khan
Federal Minister for Commerce
Islamabad

Dear Minister,

Thank you for visiting the Pakistan Business Council yesterday and for the opportunity of discussing ways to promote exports and reduce reliance on imports.

Of the several challenges facing industry presently, the two most critical are regionally uncompetitive cost of energy and high cost of borrowing. Additionally, there is need for the government to address fragmentation and silo working of ministries to develop a uniform and consistent policy framework in support of manufacturing and exports. The two attached papers list the actions required by a cross-section of ministries. We request you to drive their implementation.

The Pakistan Business Council is available to support you in our mutual quest for improvement in the balance of trade and in the creation of employment.

Yours faithfully,

Ehsan Malik

PBC's "Whole-of-Government" Checklist to Review & Promote Exports

	Responsibility	Agenda
1	Prime Minister	**PM to meet exporters (from both traditional and non-traditional sectors) along with key minsters** at least once a quarter to understand and respond to challenges and opportunities and resolve fragmentation and conflict in policies through a "whole-of-government" response. This will give exports the importance it deserves in restoring and maintaining Pakistan's solvency.
2	MOC & Textiles	**Articulate the case for Regionally Competitive Energy Tariffs (RCET) from a holistic analysis of socio-economic benefits to the country -** employment, tax revenue, exports. Also propose methodology for proportional benefit of RCET to businesses with a mix of exports and sales in the domestic market.
		Work with the MOFA on managing expectations of UAE/GCC for the Comprehensive Economic Partnership Agreement, which stands to potentially undermine domestic manufacturing and can lead to loss of jobs and a higher import bill. Based on the experience with the FTA with China, the concession list for import into Pakistan should not exceed 65%
		Improve Pakistan's market access: • **Emulate Vietnam in its market access** • **Pursue and report on negotiations for parity access with Bangladesh into Canada, Japan and Australia** • **Review exports to UK, EU and USA** and the effectiveness of Pakistan's representation in London, Brussels and Washington to preserve/expand preferential access in EU and USA. • **Progress on share gain into the US market as a result of the preference of US importers to divert sourcing away from China**
		Support realistic exchange rates
		Conduct detailed benchmarking of export competitiveness with Bangladesh, India and Vietnam for textiles, the principal export sector. Then based on available capacity, cost competitiveness, value alignment with global demand and Pakistan's market access, set realistic targets for export of goods. Break the targets into export of traditional and non-traditional textile items and to traditional and non-traditional markets, with key assumptions on policies and other success factors. Explore policy and other initiatives to promote export of apparel made from man-made fibres, expansion of portfolio to include suits, jackets and winter-wear. Consider placing restrictions on export of raw cotton, yarn etc to focus on maximizing local value-addition and exports instead of feeding inputs to competitor countries.
		Progress on diversification of the export basket and destinations. Focus on services, non-traditional goods and exports to Africa and Central Asia in particular. Prioritize exports

		of pharmaceuticals, engineering goods, fruits, vegetables and other processed food. **Operationalize the EXIM Bank t**o facilitate greater risk taking in diversifying the export basket/markets. Consider deploying funds from EDF to cover insurance premium for exports to Africa and Central Asia.
		Update on the deployment of Export Development Fund, especially for training, export promotion of non-traditional exports to non-traditional markets and establishing common/shared warehousing in these markets. Address the bureaucratic drag to promote speed and effectiveness of spend.
		Progress on improving the branding of "Made in Pakistan" (use the "Turquality" model)
		Allow spending over and above the export retention allowance to develop Pakistani brands abroad and pay for shelf space and warehousing, especially in the FMCG sector. Also relax the deadline for remittance of export proceeds to allow extension of credit to supermarket chains
		Development of the SME sector in the Sialkot, Gujrat and Gujranwala triangle for exports (fans, sporting goods, sanitary fittings, surgical instruments, cutlery, light engineering)
		Measures to protect exporters from import tariffs and other import constraints
		Work with the FBR to address gaps in Export Facilitation Scheme to allow international toll manufacturing by exporters registered under Category A & B. Also allow cross-flow of materials such as yarn, imported by one importer, passed to a weaver to make cloth, which then is bought by the original importer of yarn to produce apparel for export.
		Establish new Export Processing Zones in Karachi (near the port) and in Lahore with low cost leased land to attract foreign manufacturers especially from China, for export focused industries in Pakistan. Do not depend only on SEZs for export-oriented industries.
		P**rogress on reduction in customs duties on industrial inputs** not made in Pakistan.
		Update Rupee based export duty remission to reflect change in exchange rate..
		Progress on proposals to wash exports clean of all levies and taxes in an extended value-chain through standard drawbacks as we can't export taxes.
		Reconfigure export rebates to target items with high (and faster growing) global demand.
3	IT	Similar to goods, **Ministry of IT to benchmark competitiveness of Pakistan vs India** and other competitor countries and based on available or possible capacity, capability and cost, project a realistic target for export of services, defining the key assumptions on policies and other success factors.
		Work with the **SBP to allow well established exporters of IT services to acquire subsidiaries/establish companies abroad using the average of 50% of the previous three years export retention.** The current 10% limit is inadequate due to increase in values of technology companies in the developed world. Also remove the restriction of single investment

		per geography as most of the acquisition targets are based in USA and Europe.
		Propose export incentives for the IT industry to encourage more freelance software developers to remit proceeds to Pakistan. Evaluate cost of incentives against the cost of additional external borrowing by the government.
4	Power	**Ensure reliable supply at regionally competitive cost** without encumbering industry with inefficiencies, under-utilization of capacity, theft and cross subsidies**. Also consider marginal pricing of power during winter months.**
5	Industries	**Progress on integrating SMEs into the export value chain**
6	MOFA	**Work with the MOC on managing expectations of UAE/GCC for Comprehensive Economic Partnership Agreement,** which stands to potentially undermine domestic manufacturing and can lead to loss of jobs and a higher import bill
		Report effectiveness of our diplomatic and trade/investment representation abroad
		Review travel advisories by main export jurisdictions
7	Interior	**Update on how many visas were issued to foreign business visitors** within the stipulated time. Also, the number of applications received for work permit clearance, number granted, refused and the time taken.
8	Maritime	**Initiatives to cut the ship waiting and port handling time,** initially to half, followed further with plans to achieve parity with Singapore and Jebel Ali. Pursue MOF for releasing payments to Shipping companies
9	Communications	Progress on reducing the time and cost of moving goods up and down the country. **Identify opportunities to improve regional connectivity** (Turkey, China, Afghanistan, Central Asia and Russia)
10	Railways	**Update on debottlenecking of domestic rail freight and progress on ML1**
11	Finance/FBR	**Progress on proposals to wash exports clean of all levies and taxes** in an extended value-chain through standard drawbacks for SMEs, We can't export taxes.
		Progress on speeding up ST refunds through FASTER for all exports, not just the five key sectors.
		Progress on reduction in customs duties on industrial inputs not made in Pakistan.
		Reconfigure export rebates to target items with high (and faster growing) global demand. Incentivize remittance by freelancers engaged in export of software.
		Work with the FBR to address gaps in Export Facilitation Scheme to allow international toll manufacturing by exporters registered under Category A & B. Also allow cross-flow of materials such as yarn, imported by one importer, passed to a weaver to make cloth, which then is bought by the original importer of yarn to produce apparel for export.
12	SBP	**Work with the MOIT to allow well established exporters of IT services to acquire subsidiaries/establish companies abroad using the average of 50% of the previous three years export retention.** The current 10% limit is inadequate due to increase in values of technology companies in the developed world. Also remove the restriction of

		single investment per geography as most of the acquisition targets are based in USA and Europe.
		Allow spending over and above the export retention allowance to develop Pakistani brands abroad and pay for shelf space and warehousing, especially in the FMCG sector. Also relax the deadline for remittance of export proceeds to allow extension of credit to supermarket chains
		Operationalize the EXIM Bank to facilitate greater risk taking in diversifying the export basket/markets. Consider deploying funds from EDF to cover insurance premium for exports to Africa and Central Asia.
		Maintain realistic exchange rates
		Report any delays in remittance of dividends, royalties and technical fee
13	Science & Technology	**Progress on standards and certification including purchase of testing equipment.** Alternatively, in the use of SGS or similar testing services.
14	Health/DRAP	**DRAP to be internationally accredited to certify standards** **Deployment of Central Research Fund to promote registration of Pakistani drugs abroad**
15	BOI	**Progress on attracting FDI/JVs into export-oriented industries** **Speed and effectiveness in processing work permits.** Explore option with security agencies of approval be default if an objection is not raised within a reasonable time.
16	Provinces	**Progress on SEZs**
		Actions taken to promote growth of cotton and rice
		Incentives provided to promote location of industries within the province (land, infrastructure, labour subsidies, simplification of factory inspections)
17	Human Rights	**Update on compliance with UN Conventions governing EU GSP+**
18	Planning and Climate Change	**Progress on delivery of Sustainable Development Goals esp SDG8: Decent Work and Economic Growth; SDG5: Gender Equality; SDG12: Responsible Production and Consumption and SDG13: Climate Action. Ensure industry is proactively prepared to deal with EU's Border Carbon Taxes to be imposed from 2026.**

Updated April 8, 2024

Pakistan Business Council

Recommendations on Export Promotion & Import Substitution

Export Promotion

Without a long-term export policy, underpinned by a well-articulated industrial policy that brings all stakeholder together under the leadership of the Prime Minister, Pakistan's exports are unlikely to grow and diversify in a sustainable manner. Pakistan's current exports are limited to a few commodities (textiles, rice, leather) and a few markets (the US, EU & the UK). Pakistan needs to reindustrialize if it is going to increase its exports. Without a strong outward looking manufacturing base, Pakistan will continue to be stuck in the manufacture and export of low end, non-sophisticated products.

The key building blocks for robust growth of exports are:

A 5-year National Charter for Exports: Owned and monitored by the Prime Minister to give exports the consistent priority that it deserves. This policy should shift the mindset of the bureaucracy from "control" to "empower." Long term policy, which brings all stakeholders on a common platform, needs to facilitate planning and encourage investment to build scale and improve competitiveness.

Exports need to be an integral part of an industrial policy: This needs to promote manufacturing, including sensible import substitution. A stand-alone export policy without strong linkages with manufacturing and imports is not sustainable over the long run. A National Industrial Policy would perforce address all elements of manufacturing, including exports and import substitution.

Accountability of all Export incentives: Export incentives are funded by the tax payers and require proper accountability. It is recommended that this be done for each sector at least on an annual basis and their continuation or adaptation be contingent on meeting prescribed, medium to long term objectives. Short-term incentives lead to short-term performance.

An Export Facilitation Scheme (EFS) that encourages integration in global supply chains: The recently implemented Export Facilitation Scheme (EFS) needs to be revised with input from all stakeholders, the manner in which the EFS is currently configured, does not allow multiple domestic firms working together to be a part of the exporting firms supply chain.

Energy at competitive rates for the ALL-export sectors: All exports should be entitled to energy at a cost which is globally competitive. This will help to broaden the export basket. Where industries produce a mix of exported and domestically marketed products, a rebate should be offered on the quantity exported to render the input cost of energy to a globally competitive level.

Competitive rate of the Pak Rupee: Pakistani exporters have lost market share in recent years to an artificially higher value of the currency. This made exports uncompetitive and subsidized imports. The Pak Rupee needs to maintained at a Real Exchange Parity of about 100%.

Invest to promote the growth of exports: A leap of faith is required on the part of the government to set aside a substantial amount for up-front investment from the Export Development Fund (EDF) for non-core and new markets. With 75% of export reliance on traditional products and with Textiles comprising 60% of exports, of which in turn, 68% are destined for the European and North American markets, Pakistan needs to invest heavily in diversifying both products and destinations. The operators in the non-core sectors are generally small and do not have the means to develop exports. Moreover, the current 10% FX retention allowance for non-core sectors is inadequate in size to fund such development.

Wash exports clean of all domestic taxes & duties: As a matter of principle, all import levies and domestic transaction costs, irrespective of where they are incurred in the supply chain leading up to the final point of export should be refunded to the final exporter, allowing price competitiveness. It is difficult for smaller exporters to operate the existing draw back systems or re-export schemes. A standard refund based on periodically updated costing will make it simpler for them to export.

Promotion of Pakistani brands in international markets: Strong brands command premium prices. Pakistani exporters should be allowed to both acquire and to develop brands that they already own. The former is a capital investment, whilst the latter is expensed when incurred. However, the purpose of both is to generate higher exports. The present 10% export retention allowance does not adequately cover the cost of establishing a brand, registering the products with supermarket chains, paying for shelf rentals etc. These costs are high in the early years of market entry. It is recommended that such costs incurred abroad may be allowed at actuals, subject to audit or other verification.

A state sponsored national brand building programme: Pakistan could learn valuable lessons from the Turkish "TURQUALITY" Programme through which the Turkish government has been funding the development of 10 worldwide Turkish brands. A “PAKQUALITY” initiative should be promoted under the PPP model to ensure that Pakistani brands also become regional / global icons.

Time for realization of export proceeds needs to be flexible: Pakistani exporters are required to realize export proceeds within a short time period. This does not permit the warehousing of products, for subsequent sale on a “just in time” basis, which is increasingly demanded by foreign buyers unwilling to carry inventory on their own books. Larger exporters should be permitted to warehouse inventory abroad. This is all the more essential to serve online sales portals, such as Amazon, which will not allow access to foreign suppliers unless they are shipping promptly from a domestic point. This would entail longer time periods for remittance of export proceeds.

Focus economic diplomacy to negotiate market access: At a minimum the objective should be to achieve parity with key global sourcing competitor countries. Whilst prescribed goods from Pakistan currently are allowed entry into the EU duty free under the GSP+ facility and Textiles have parity access in the USA with countries like Bangladesh, exports from Pakistan suffer from higher duties into Japan, Canada and Australia, relative to Bangladesh. Vietnam is a good model to emulate for market access. Through a plethora of trade agreements, Vietnam has opened up key markets to goods and improved its ability to competitively add value to import of materials.

Financing for SMEs: Banks are reluctant to lend to SMEs due to higher risk. SMEs on the other hand are unable to take risks associated with credit to foreign buyers. A vendor financing and export house model would promote greater integration of the SMEs into the export chain. Japan and Korea developed their exports through the export house model with companies like Mitsubishi and Mitsui offering a model and learning opportunity.

Operationalize EXIM Bank to develop new export markets: Developing export markets involves risks as most foreign buyers will not provide letters of credit, especially to SMEs who lack negotiation power. The EXIM Bank owned by the government should be capitalized and made operational to help exporters to address the riskier markets in Africa, Central Asia and Latin America.

FDI should be export focused: A quarter of Vietnam's exports are generated by Samsung alone whilst many other Japanese, Chinese, South Korean, Taiwanese and US investors account for a sizeable percentage of its exports. Pakistan has not attracted foreign investment into exports, even in the agriculture sector where there could be potential. A differentiated FDI policy which factors impact on the external account is recommended for fresh foreign investment. Existing foreign companies operating in Pakistan should be encouraged to export into their global value chains.

Increase value-addition in current export basket: The Apparel (Value-added sector) exports from Pakistan cover the bottom 20% of the global universe of apparel, leaving 80% of apparel demand unaddressed. This is where countries like Vietnam and Bangladesh have moved with speed. Bulk of Pakistan's exports are majorly cotton based, whilst global demand is shifting to man-made fibres, which are also ideal for the emerging technical textiles. There is significant scope to change the cotton/man-made fibre mix and to go up the value chain.

Promotion of non-traditional exports: There is no US FDA and very few WHO approved pharmaceutical manufacturing facilities in Pakistan. This is a major impediment to exports. Pharmaceutical companies contribute to a Central Research Fund. Companies may be allowed to draw on this fund in relation to their contribution in the previous years to meet the costs of drug registration abroad and towards establishing WHO certified facilities. Footwear, Leather, Furniture, Cutlery, Sports suffer from design and skill deficiencies which can be addressed through a combination of FDI, technical agreements and training by establishing or improving dedicated design centres. Mining, especially of copper, offers a longer-term export opportunity. However, we should ensure the maximum possible value addition, instead of exporting ore.

Incentivize export of services: Unlike export of goods which attract rebates, export of services is not similarly incentivized. Rebates would also encourage full remittance of sale proceeds. IT and IT enabled service companies lack immovable collateral for bank borrowing. Their work-in-progress and receivables should form the basis of bank lending. Call centres are charged GST even on export services. This should be withdrawn. Equipment required to develop software and operate call centres and back-office services should be permitted to be imported free of duty and GST. Companies in Pakistan are presently permitted to invest the average of the previous three years 10% export retention allowance to acquire companies abroad, with the proviso that there can be no more than one acquisition in any country. Whilst this is adequate for exporters of goods, exporters of services often have the possibility of growing their market reach by acquiring more than one company abroad. Additionally, they should be permitted to use their export retention limit of 50%.

Beyond IT and IT-enabled services, there is scope to promote tourism (including medical tourism), provision of engineering & architectural design, accounting, consulting and legal services.

Integrate Pakistan into regional value chains: Pakistan needs to trade more with its regional neighbours, regional trade has the advantage of similar cultures and reduced transit time & freight costs. Countries in South Asia need to cooperate when it comes to being part of regional/global value chains. To Pakistan's East and the North-East there is a potential market of nearly 3.0 billion consumers, Pakistan needs to integrate through a network of trade, energy and transit agreements.

Moratorium on signing of new trade agreements: Pakistan's trade agreements have seen a rise in imports with no significant improvement in exports. Pakistan's trade agreements need to be driven by economic considerations as opposed to being solely guided by political/emotional ties both at a national as well as individual level. The incoming government needs to have a properly developed template before initiating any new negotiations or ratifying any new trade agreements. The under-negotiation FTA with the GCC and the CEPA with the UAE needs to ensure protection of domestic industry and opportunities for Pakistani professionals through a Mutual Recognition Agreement to practice in the GCC countries. Further there needs to be agreement on standards and acceptance of certificates issued by Pakistani laboratories by the GCC countries.

Incentivize new or incremental exporters: Where spare capacity exists in either businesses focused on the domestic market or those whose exports are presently concentrated on a few markets with potential to diversify, a limited time incentive may be offered to develop such exports.

Import substitution

Without clear sectoral priorities, it is not possible to shape specific vertical incentives. An industrial policy which promotes import substitution with the objective of feeding into exports needs to be formulated and implemented. Import substitution should not be used as an excuse for depriving Pakistani exporters and consumers of quality products competitively priced.

Remove duties on industrial inputs: Accelerate cascading tariffs on raw materials and intermediate items that are currently not available in Pakistan.

Provide reliable energy at competitive price: Cost of energy to industry should be free from the burden of capacity payments for idle generation capacity, cross-subsidy and pilferage from the grid. Industry needs electricity at competitive prices to compete with imports. This is especially true for more energy reliant sectors such as petro-chemicals in which scope for import substitution exists.

Open-ended tariff protection impedes domestic competitiveness: Open-ended protection for domestic industry hampers both domestic as well as global competitiveness. Industries currently protected from global competition need to have a sunset clause. New industrial units asking for tariff and other protection need to have a clearly defined weaning plan.

Encourage "Greenfield" investment: The change in the definition of new investment from "Greenfield" to "Pioneer" is holding back upgradation of existing industries and new players entering existing industries. This is creating a barrier to newer more efficient firms entering into existing markets and providing protection to existing players who may have no longer be competitive

Realistic Exchange rate of the Rupee: An over-valued rupee tends to subsidize imports and make domestic manufacturing uncompetitive. Target should be to have Real Effective Exchange Rate as close to 100% as possible, at times the government should be willing as a policy measure to let it rise above 100 also.

Incentivize investments in plant and machinery: Plant and machinery both for new as well as for BMR should be allowed duty and sales tax free. Also, where possible, tax credits should be provided for investments in industries which feed into export value chains.

Crackdown on under-invoicing in imports: Under-invoicing in imports needs to be curbed as this makes domestic manufacturing unviable. Electronic Data Interchange (EDI) with China & the UAE needs to be implemented. Values at which consignments are cleared should be available in real time and manufacturers should be allowed to bid at a premium for imports which appear under-invoiced.

Curbs on Afghan Transit Trade & Smuggling: Leakages in the Afghan Transit Trade (ATT) need to be curbed through better monitoring of transit cargo and ensuring that Afghan imports are not excessive keeping in view the level of development and requirements of the Afghan economy. Provincial governments need to be incentivized to cooperate with Customs officials when they raid retail and wholesale markets to curb sale of smuggled goods.

Walk the talk on SEZs & industrial parks: Government needs to release land in semi-urban areas to develop Special Economic Zones & industrial parks. These Zones & Parks should be operated on a "plug & play" mode with real estate being leased as opposed to being sold to ensure industrialization.

Enforce national standards and Expiry Dates: Most products sold in the domestic market don't comply with global standards and some are past their expiry dates. The government needs to put in place a robust mechanism to ensure that standards and rules are complied with and the standards authorities have the mechanism to verify product quality and impose punitive finds.

IPR needs to protected: Violation of Intellectual Property (IP) is viewed as a minor offence by the various stakeholders including the government. IR violations need to be forcefully prosecuted and the signal sent to international players that Pakistan takes IP violations seriously.

Incentivize indigenization of currently imported inputs: There is significant reliance of domestic manufacturing on imported inputs. Even basic goods like soaps and toiletries are manufactured from imported vegetable oils. Most of packaging is import reliant, as are chemicals, dyes, perfumes and flavours. Incentives/rewards should be provided for indigenization of these materials.

Effective and timely enforcement of anti-dumping duties: The review process needs to be improved for timely implementation and appropriate legal remedies found to overcome the present practice of successive appeals to different High Courts and resultant stay orders, which thwart collection of anti-dumping duties.