PAKISTAN BUSINESS COUNCIL

Transformational Challenges to be Addressed

	ISSUES	POSSIBLE SOLUTIONS
1	Policy unpredictability, fire-fighting, knee-jerk, short-term, mostly revenue-seeking changes that affect investment sentiment	• Restore the sanctity of long-term plans. • Separate fiscal policy from collection of taxes. • Grandfather existing investors.
2	Security conditions and travel advisories by foreign countries	Diplomacy to seek differentiated approach to safer parts of the country.
3	Macroeconomic instability, high inflation, demand compression, import controls, cost of funds	• Fiscal discipline. • Revise NFA. • Realistic exchange rates through regular adjustment.
4	No industrial policy	Industrial policy aligned with fiscal, trade and investment policies for a holistic approach to investment.
5	Silo working of ministries and fragmentation between the center and provinces	• PM, Council of Common Interests and SIFC to drive cohesion. • National standards for food, environment, labour
6	Regulatory overload, slow and intransparent decision making by a colonial era, bloated bureaucracy which focuses on controlling the formal sector, whilst the informal sector escapes oversight and provides unfair competition to the regulated sectors.	• Pakistan Regulatory Modernization Initiative, • Civil service reforms. • Digitalization (on the Pakistan Single Window pattern) • Regulators to focus on the unregulated sectors
7	Uncompetitive energy tariffs vs. the region undermines industry's ability to generate jobs, promote exports, reduce import reliance and produce taxable profits.	Regionally competitive energy rates by unburdening industry from the combined effects of inefficiencies in transmission, unaccounted for gas and theft of power, capacity charges for unutilized generation capacity, cross subsidies to residential users, under-recovery of bills and overcharging by utilities.
8	High cost of borrowing and the crowding out of the private sector by the government	Reduce government borrowing. Convince SBP/IMF to use core inflation as benchmark for policy rate. Match concessional financing by competitor countries of exports
9	Availability of long-term loans	Establish DFIs
10	Ability to import machinery and materials due to paucity of forex	Balance the current account
11	Predatory taxation, narrow tax base, disproportionate burden of taxes on industry which discourages scale, investment and broadening of shareholding	• Fiscal reforms. Broadening of the tax base (90% of taxes from just 3% of tax payers). Primary target should be tax collected from new tax payers. • Relief for over-taxed industry (Manufacturing 20% of GDP contributes 56% of taxes, Retail etc also 20% contributes 2%). • Incentives for investment.

		• Remove double taxation on inter-corporate dividends to encourage group formation, scale and wider shareholding. • Prompt refunds (GST and other taxes) • Clear order of fiscal priorities, with the listed corporate sector at the top, then other corporate entities, followed by AOPs and individuals in business. • Bring income tax and GST rates down to those of emerging countries.
12	FBR's harassment	• Restructure FBR. • Address talent and technology gaps. • Reduce direct interaction with tax payers. • Penalize speculative and fishing notices by FBR
13	Narrow export basket, high geographical concentration	• Regionally competitive energy tariffs. • EPZs, especially for garments and for relocation of Chinese factories. • Review/revise incentives for non-traditional exports and for new exporters. • Incentivize incremental export growth by existing exporters. • Fully operationalize Export Import Bank to widen export reach. Deploy EDF to cover insurance premium for exports to Africa and Central Asia. • Match concessional financing terms with competitor countries. • Facilitate Pakistani brand building and market reach abroad by allowing remittance of forex for marketing, warehousing and procuring shelf space. • Renegotiate existing trade agreements to obtain more favourable trade terms, • Secure new agreements with Africa and Central Asia. • Safeguard domestic industry through careful assessment of risks and opportunities in new trade arrangements, such as with the GCC and UAE.
14	High reliance on imports	• From net importer, become net exporter of food items through agricultural reforms. • Maximize use of indigenous fuel, renewable and nuclear energy. • Reverse the premature deindustrialization of manufacturing through cascading tariffs and by lowering the burden of taxes. • Providing limited time, performance linked protection for nascent industries.

		• Restart direct trade with India to save cost of logistics and intermediation costs when routed through third countries. Estimated savings of up to $1 Bn pa
15	Smuggling, under-invoicing, misdeclaration of imports, counterfeiting, misuse of Afghan transit trade and concessions provided to FATA/PATA	• Strengthen border controls and checks on points of sale. • Secure EDI with main trading partners to stem misinvoicing. • Provide transparency on import valuations to ensure adequate challenge. • Reduce incentive to evade through tariff reforms. • Quantitative and qualitative controls on what can be imported in transit for Afghanistan. • Similar limits on imports for FATA/PATA based on need. • Redouble efforts to protect intellectual property.
16	High cash in circulation, low level of digitalization, high GST rate, large scale evasion	• Incentivize non cash transactions e.g. through lower GST on use of credit cards and online payments. • Reward transactions with tax filers.
17	Unlevel playing field vs. the informal sector	Heighten differentiation in treatment on multiple dimensions (advance taxes, other privileges)
18	Brain-drain due to heavy taxation of salaried employees	Revert to tax brackets and rates prior to Federal Budget 2023-2024
19	Capital flight and exit of the wealthy investors from Pakistan	Withdraw CVT to stem the exit of wealthy investors from Pakistan
20	Availability and affordability of land and utilities. Slow progress on SEZs and ineffective EPZs	• Fast forward SEZs and EPZs to attract Chinese industry looking to relocate due to high labour cost in China • Use land available near the Steel Mill in Karachi for an EPZ. Establish another in Lahore
21	Price controls for some sectors (eg Drugs)	Allow revisions in line with increase in costs
22	Poor productivity	Quality education, especially STEM
23	Restriction on investing more than 10% of exports to acquire IT businesses	Allow IT exporters to spend up to their export retention limit (which is now 50%) to acquire businesses abroad. This will not create additional outflow of forex. Having acquired such businesses, the software development and back-office processes can move to Pakistan, retaining marketing access abroad.

Five criteria for desirable FDI in view of Pakistan's need to balance the external account. Potential for Saudi investment in the private sector under each criterion

	FDI Desirability Criteria	**Potential for Saudi Investment in Pakistan Private Sector**
1	FDI in sectors that local investors have a poor knowledge of and capability to manage or are unable to raise foreign currency to fund import of plant and equipment. The latter could be due to country's low foreign exchange reserves or central bank restrictions.	Primarily through injection of forex capital: • Renewable Energy • Power transmission • LNG terminals • Tourism infrastructure • Acquisition and modernization of Lotte Chemicals PTA plant • Pharmaceuticals • Logistics (trucking, cold stores, warehousing) • Soda Ash (for glass/soap mfg etc) • Pet Bottles Recycling to Yarn and Fabric
2	FDI in export oriented or import avoidance sectors so that future outflow of dividends, technical fee and royalties can be met from earnings or savings of foreign currency without exerting pressure on the external account. Most of Pakistan's current FDI fails to meet this requirement as investors reap the demographic dividend of a large, growing population and rapid urbanization.	Corporate/Contract farming for exports/self-sufficiency: • Dairy including value-added(exports) • Meat, including abattoirs & cold chain (exports) • Sea Food (exports) • Fruits & vegetables (green houses, processing etc) (exports) • Oil seeds/oil extraction and refining (import reduction) • Wheat, rice, maize (exports and import substitution)
3	FDI which brings propriety technology and knowhow which is not available to local businesses without equity investment by foreign investors. For example, if it cannot be procured through technical agreements by local investors.	Doubtful if Saudi investment can bring technology not already available or which better qualified investors can provide.
4	FDI that unlocks global marketing network of the investor or provides preferable access for exports to the home market of the foreign investor.	• Food items listed above for the gulf market
5	FDI with local partners, ideally through listed companies which allow local shareholders opportunity to share in the success of the investment and which cushions the country's external account from outflow of profit etc.	Recent investments in Gas & Oil Pakistan/Shell Pakistan network. However, debatable if these have positive long-term impact on the external account. Due to difference in the risk perception of investment in Pakistan, a foreign investor is unlikely to value investment in an ongoing venture at a higher level than local

		investors. Hence, likelihood of shorter payback and early net outflow through remittances.

What do Foreign Investors look for?

1. Security conditions and macro-economic stability
2. Predictability of policies, especially fiscal policy
3. Experience of current (local and foreign) investors on ease and cost of doing business
4. Ease of entry and exit, time it takes to obtain affordable land and utilities, the degree of regulatory burden on the sector
5. Restrictions on remittance of profit and capital
6. Dispute resolution process
7. Intellectual property protection
8. Pakistan's market access for exports vs. alternative investment destinations (eg Bangladesh, India, Vietnam, Cambodia, Laos, Ethiopia and Egypt)
9. Comparative advantage in sourcing indigenous inputs
10. Skills and productivity of workers
11. Quality of infrastructure and logistics
12. Employment laws, labour practices, work permits and ability to obtain visas with ease
13. Living conditions for expatriates
14. Tax rates and tax processes