

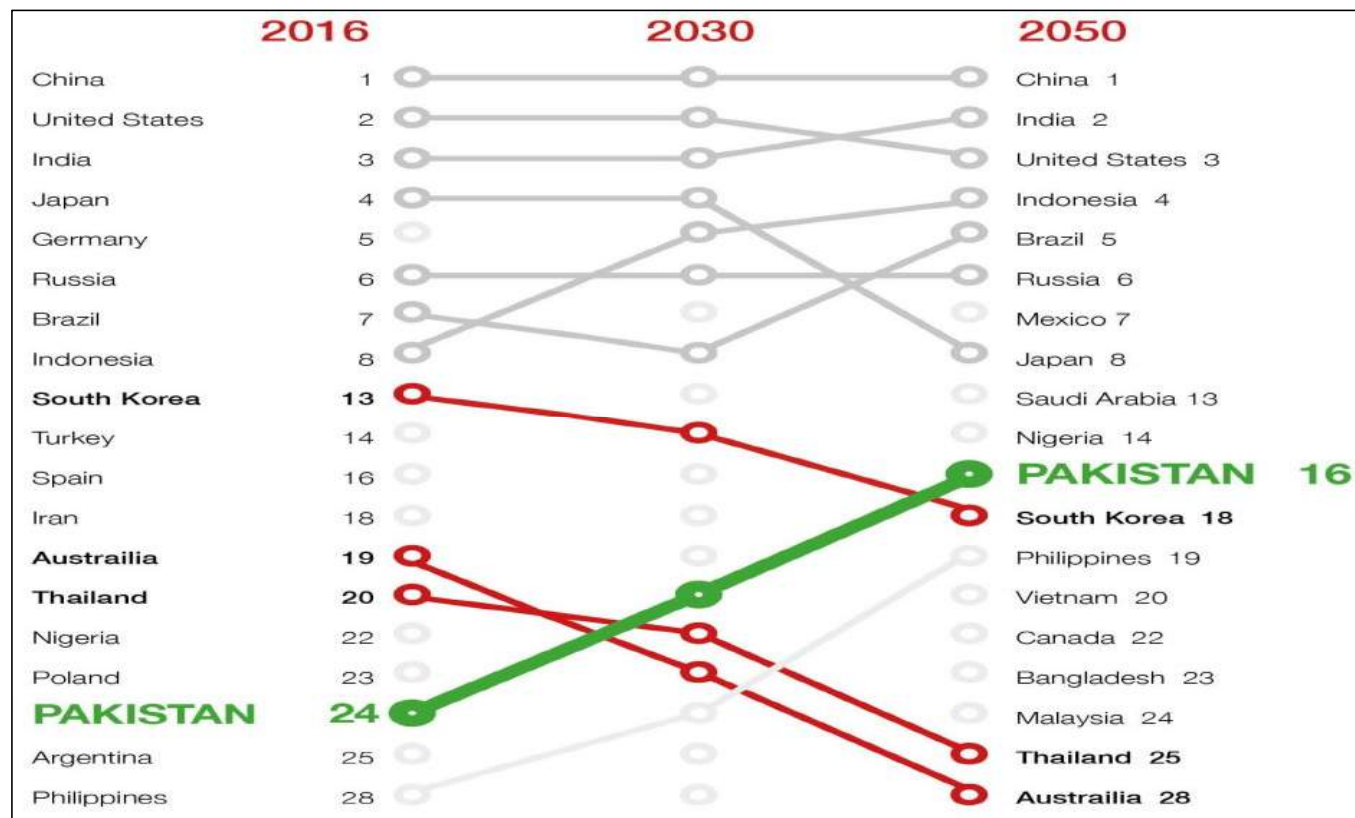
A close-up photograph of industrial gears, likely from a machine. The gears are metallic and show signs of wear. A semi-transparent green overlay covers the left side of the image, creating a modern, industrial aesthetic.

Make in Pakistan

Enabling the manufacturing industry
to achieve economic growth

Ali Habib – Director Pakistan Business Council

Pakistan ushering into a new era of growth



24th largest economy by 2016

20th largest economy by 2030
surpassing Australia and
Thailand

16th largest economy by 2050

Pakistan ushering into a new era of growth

50% growth in the power sector – solving the energy crisis through development of projects with a capacity of more than 11,000MW

Generating power from indigenous resources such as Thar Coal

2 LNG Terminals commissioned – overcoming natural gas shortage

CPEC US\$60BN investment for mega development projects over the next 15 years.

Distinction b/w filer and non filer

Auto policy leading to new entrants

Large Infrastructure projects in the pipeline – Investment of US\$6BN plus

Major improvement in law and order bolstering investor confidence

SEZs and CPEC major opportunity to make and export from Pakistan



Key areas that require immediate attention

Pakistan's manufacturing sector has not lived up to its expected potential as evident from its stagnant share of 20 to 21% in overall GDP since 2013 (*1.1% contribution to the GDP Growth rate over 5YRS*). Currently the following critical issues impede the growth of manufacturing in Pakistan & actions need to be taken to move upwards on the value chain and the productivity ladder.

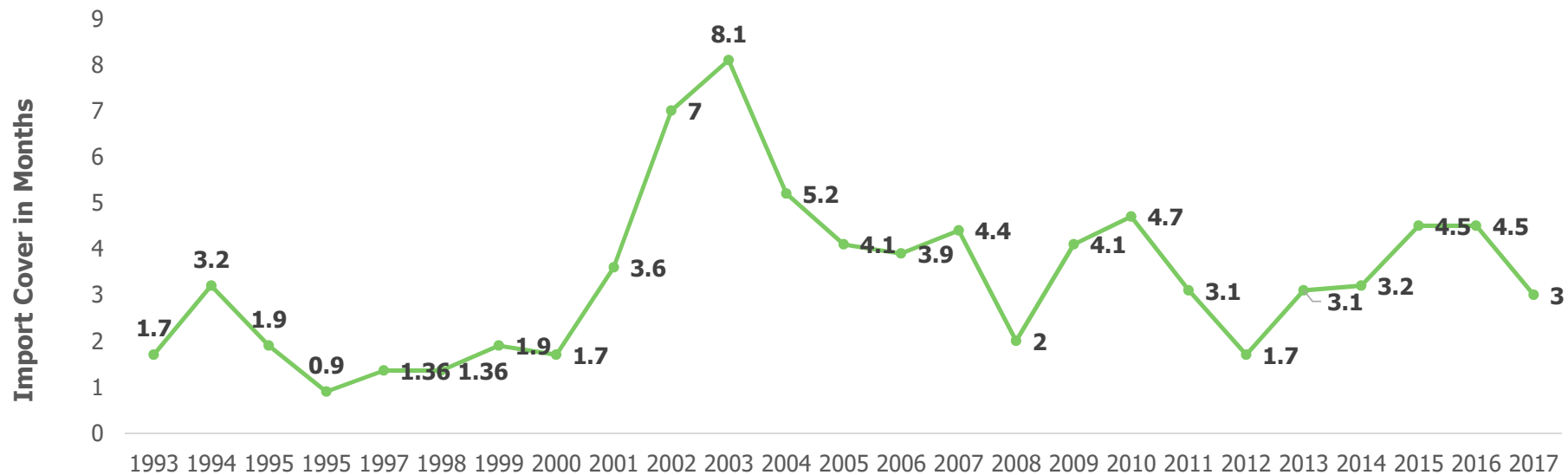
- (1) Poorly negotiated FTAs
- (2) Heavy Taxation
- (3) Fiscal Policy not supportive of scale
- (4) Cascading Tariffs
- (5) Valuation of Imports
- (6) Value Added Tax Structure
- (7) Unfair competition from the informal sector
- (8) Full & Final Tax
- (9) Unfriendly Business Environment

Pakistan's government needs to take a a very enhanced facilitative approach to revive the manufacturing sector.



12 Recurrent Cycles of External Account Crises

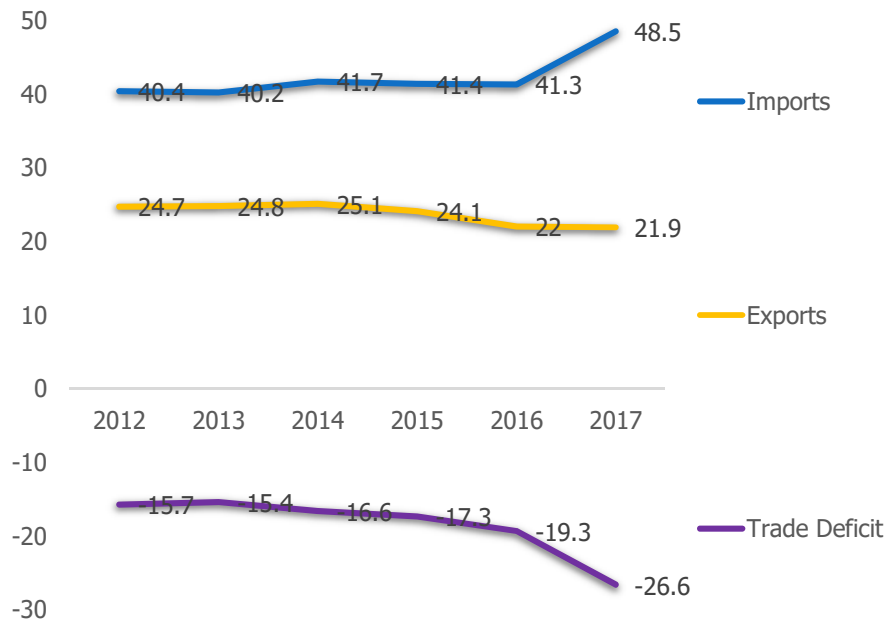
Since '88, Pakistan has been to IMF 12 times.



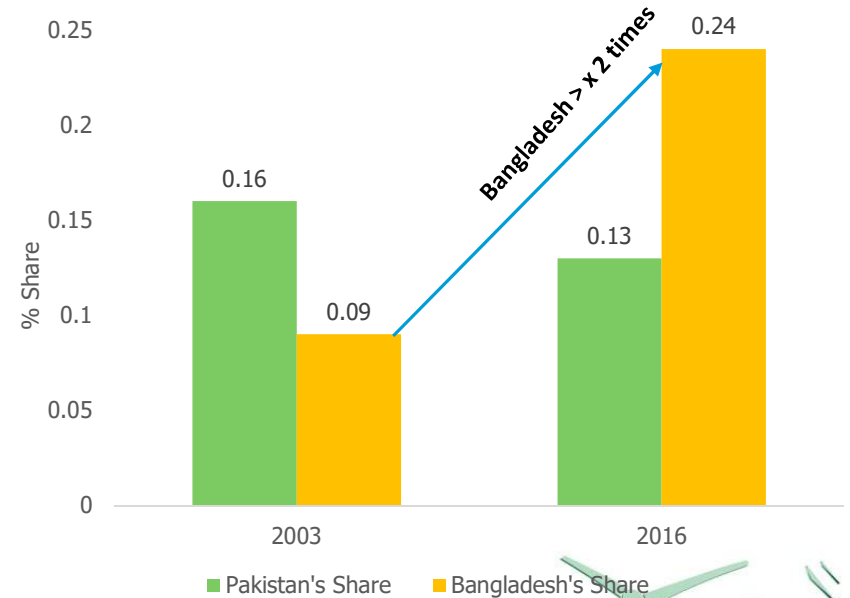
manufacturing sectors not lived up to its potential



Context: imports up, exports down, trade deficit rising ... and Pakistan losing share of world exports



Pakistan's Share of World Exports Down, Bangladesh's More than Doubled since 2003

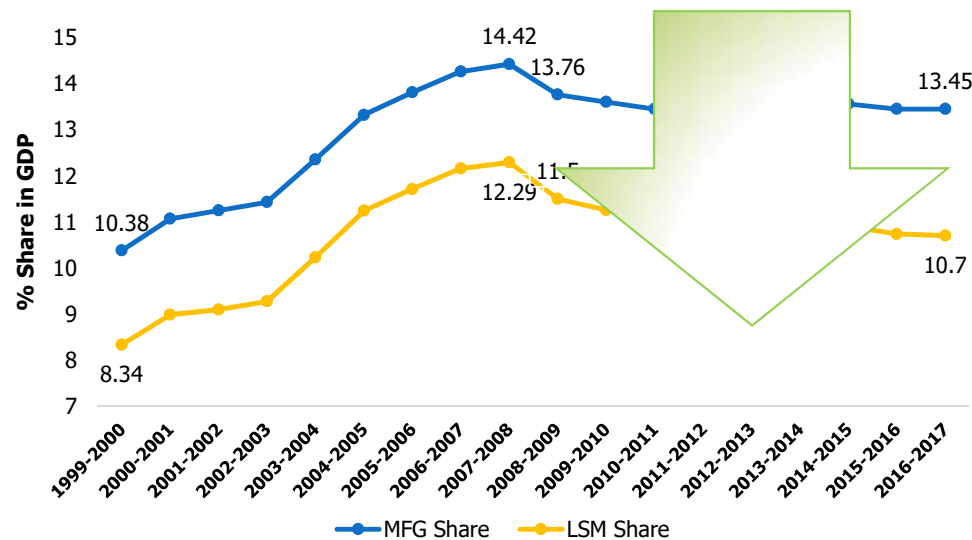


manufacturing sectors not lived up to its potential

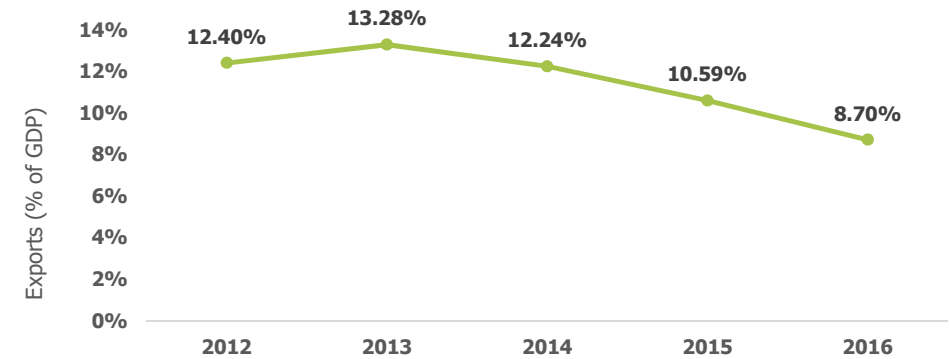


Manufacturing and its share in exports is declining

Country De-Industrializing Prematurely



Share of Manufacturing in Exports Declining



manufacturing sectors not lived up to its potential



FTAs are not supportive

Poorly Negotiated Trade Agreements

Countries	Year Signed	Trade Balance Then	Trade Balance 2016
Srilanka	2005	US\$0.094 BN	US\$0.24 BN
China	2006	US\$(3.2) BN	US\$(15.32) BN
Indonesia	2013	US\$(1.06) BN	US\$(1.86) BN

Growth in Import Reliance, Mainly on China

Items	Imports 2007* US\$MN	Imports 2016* US\$MN	Growth Multiple	Est % from China
Footwear	34	103	3X	90%
Pumps	47	171	3.6X	61%
Glassware	13	74	5.6X	90%
Tiles	50	170	3.4X	75%
Blankets	17	46	2.7X	98%
Fans	25	69	2.7X	80%

Caution with Proposed FTAs with Turkey and Thailand

1. Significant mismatch between Pakistan's export capability with those of Turkey (1:3) a
2. Pakistan already enjoys relatively low tariff access to both countries
3. Both countries desire access to Pakistan's automobile, auto-parts, chemicals, plastics undermine existing industry
4. Turkey is one of the highest users of trade defenses, even against its FTA partners!

(1) Poorly negotiated FTAs

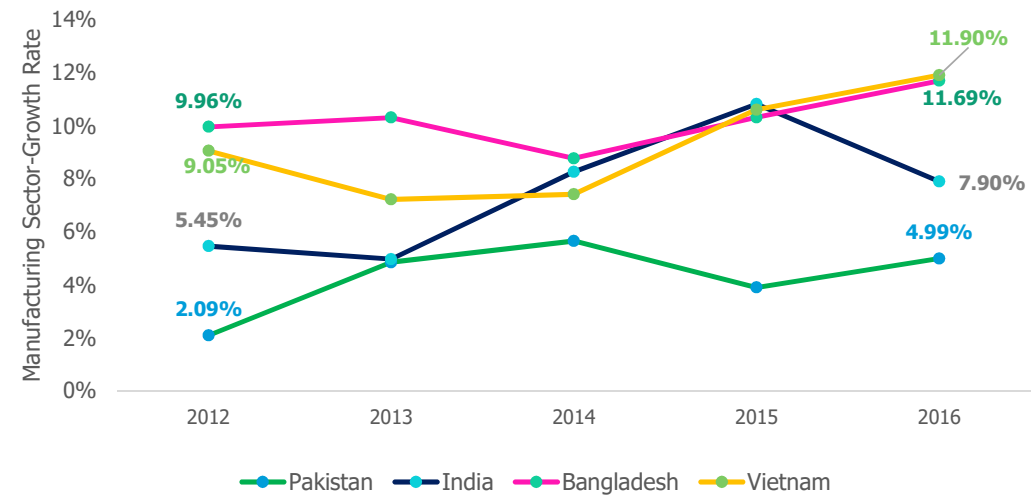


Manufacturing is over-taxed and its growth lags neighbors

Industry Carries Disproportionate Burden of Taxes

	% Share in GDP	% Tax Rev
Agriculture	19.5%	<1%
Manufacturing	13.5%	58%
Retail/Wholesale	18.5%	1%
Services Total	59.6%	37%

Pakistan Lags Behind South Asia in Manufacturing Growth



(2) Heavy Taxation



Taxes are high, fiscal regime complex and not supportive of scale

Complex Tax System

Countries	Doing Business '18 PAYING TAXES Rank (Out of 190)	Payments (Number Per Year)	Time (Hours Per Year)
Pakistan	172	47	311.5
India	119	13	214
Bangladesh	152	33	435
Sri Lanka	158	47	168
Vietnam	86	14	498

High Tax Rates

	Corp Tax %	VAT/GST%
Pakistan	38%*	17%
Singapore	17%	7%
Sri Lanka	15%	12%
Bangladesh	25%	15%
Vietnam	22%	10%
Includes WWF/WPPF/Super Tax		

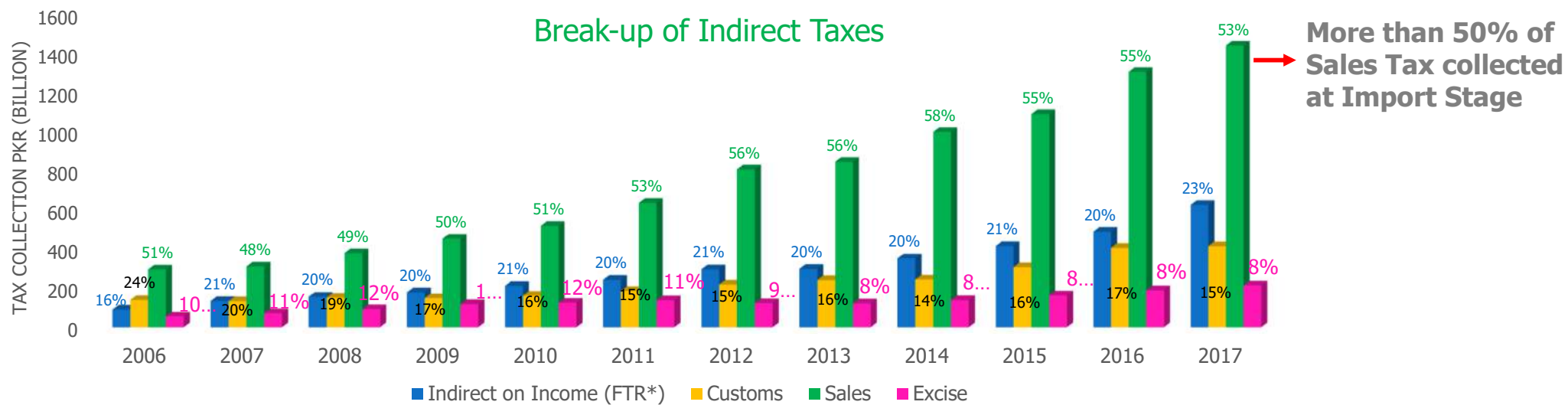
Fiscal Policy Not Supportive of Scale

1. Super Tax
2. Tax on retained profits > 40%
3. Cascading tax on inter-corporate dividends
4. Effective Tax Rate of 55% for shareholders of holding companies
5. Restricted group loss relief
6. Minimum tax on turnover, even in initial years
7. Corporate tax higher than tax on sole traders/AOPs

10
(3) Fiscal Policy not supportive of scale



Tax revenue is reliant on imports and presumptive taxes



(3) Fiscal Policy not supportive of scale

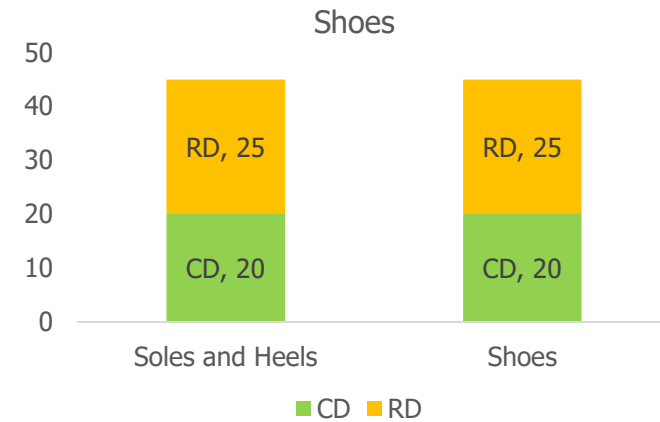
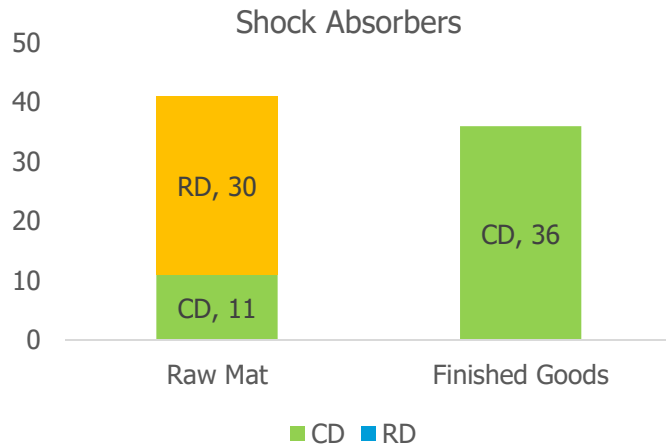
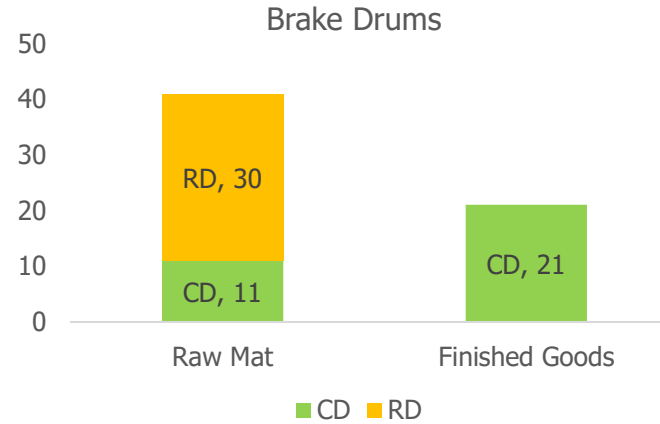
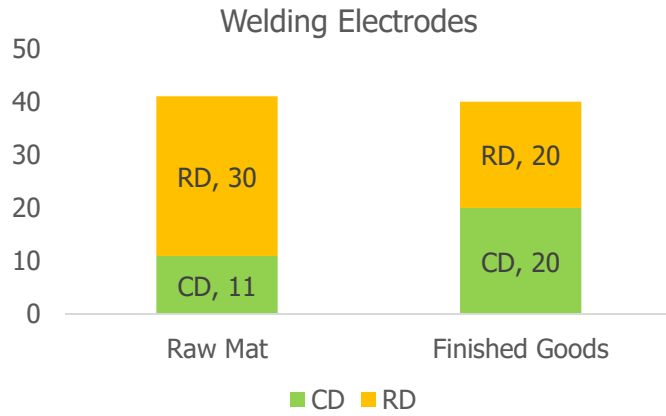


Non-cascading tariff hurts manufacturing, footwear, an example

Parity duty on inputs and finished goods	Import Duty Before RD
Raw & Intermediate materials	
Soles	20%
Heels	20%
Laminate Fabrics	20%
PU Chemicals	25%
Insole Board	20%
Zipper	20%
Finished Goods	
Shoes	20%



RD on RM/intermediates undermines industry



(4) Cascading Tariffs



Inappropriate tariffs for commercial importers hurts manufacturing & government revenue

S. No.	Part Description	PCT Heading	As per Pakistan Custom Tariff	As per ruling 661	Parts AVG Net Weight (KG)	OEM Unit Value Avg. (\$)	AVG OEM Duty & Taxes	Values as Per Ruling	AVG Duty paid by Commercial Importer Ruling 661	Incremental Revenue to GOP per unit
1	Oil Pump & Parts	8413.3030	By Unit	By Unit	1.50	22.15	15.73	5.43	3.8	11.93
2	Water Pumps & Parts	8413.3030	By Unit	By Unit	0.81	42.16	29.93	1.75	1.22	28.71
3	Spark Plug*	8511.1000	By Unit	By Unit	Unit	1.84	0.71†	0.45	0.17	0.54
4	Lamps / Head Light / Lens	8512.3010	By Unit	By Unit	Unit	62	44.02	3.30	3.18	40.84
5	Oil Filter ***	8421.2310	By Unit	By Unit	0.20	2.75	2.64 ***	0.65	0.63	2.01 ***
6	Air Filter ***	8421.3110	By Unit	By Unit	0.18	8.65	8.30 ***	0.65	0.63	7.67***

Proposal

Increase Valuation per KG in Ruling 661 to reflect actual C&F of Part

Assess High Tech and High Value Parts on per unit basis and increase valuation on unit basis.

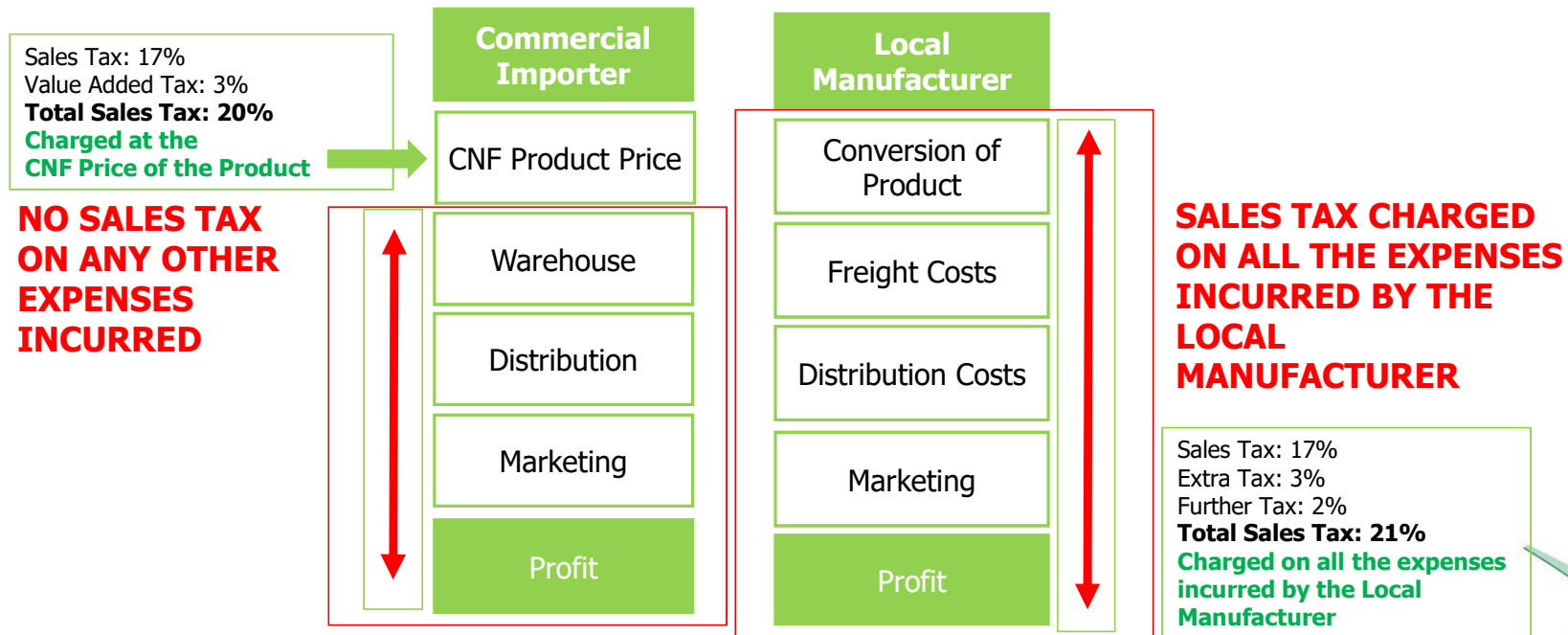
As per ruling 661 prices are fixed based on Parts Weight:

** 35 % Custom Duties + 20 % GST + 5.5 % Income Tax.

*** 15 % Add Duty Item - Custom Duty 10 % only for Spark Plug



Manufacturers pay sales tax on entire value addition vs. importers on import value only



Under-invoicing of Imports is Rampant and Significant

Import Source	Extent of Under-Invoicing* US\$ MN	Under-Invoicing as % of Pakistan's Reported Imports
China	3,552	26
EU	1,006	21
UAE (non-oil trade)	324	35
UK	220	35
USA	100	5
Thailand	88.4	10
Turkey	86.8	33

Under-invoicing is differential between Pakistan's reported imports vs the exporting country's reported exports to Pakistan.



Under-invoicing is a major drain on tax revenue & undermines manufacturing

TAX EVASION AT POINT OF ENTRY		100% Compliant	60% under-invoiced
		PKR	PKR
Full value	PKR	100	100
Declared/assessed value	PKR	100	40
Customs Duty	20%	20	8
Regulatory Duty	25%	25	10
S Tax on duty paid value	20%	29	12
Presumptive tax	6%	10	4
Total Tax Levy at import stage	PKR	84	34
Tax evaded at import stage	PKR		-51
Tax evaded at import stage as % of Tax due			-60%

(8) Full & Final Tax



Presumptive tax creates an uneven playing field for manufacturing and results in total tax loss of 67%

Tax evasion as a result of presumptive Tax Regime		Manufacturer	60% under-invoiced commercial importer
Landed cost in the books without input sales tax PKR.		145	
Assume 50% mark up	PKR	73	
Sales Value before output sales tax	PKR	218	
Output Sales Tax	17%	37	
Price to customer	PKR	254	
Net Profit for Compliant Manufacturer	PKR	73	
Tax at 30% thereon	PKR	22	
Add difference of output and input sales tax	PKR	8	
Total taxes and import levies	PKR	104	34
Extent of evasion/avoidance	PKR		-70
Evasion/avoidance as % of tax liability			-67%



Input costs are uncompetitive

Inflation in Pakistan's Input Costs since 2010

	Change '17 over '10	Inflation pa
Labor	X 2.5 times	14% pa
Electricity	X 2.3 times	13% pa
Gas	X 2.5 times	14% pa

Labor Cost / Month

	US\$/month	Pakistan Multiple
Pakistan	143	
Bangladesh	65	X 2.2 times
India	81	X 1.8 times

Electricity Cost / Kwh

	US Cents/ Kwh	Pakistan Multiple
Pakistan	14	
Bangladesh	11	X 1.3 times
India	8	X 1.75 times

Gas Cost / MMBTU

	US\$/ MMBTU	Pakistan Multiple
Pakistan	5.72	
Bangladesh	2.52	X 2.3 times
India	2.80	X 2 times



And it is not easy to manufacture/do business...

	Construction Permits Days	Getting Elect Days	Taxes Number	Taxes Days Taken	Time to Export Days	Time to Import Days
Karachi	260	215	47	311	406	129
South Asia Avg.	194	137	28	277	369	113

(9) Unfriendly Business Environment



BIG IDEA : MAKE IN PAKISTAN

Pakistan needs to work together with key stakeholders (government, policy makers & industry) & develop a comprehensive sector specific strategy to enable our manufacturing sector to scale production & start exporting.

The country needs to produce consumables, semi-durables & durable goods locally (presently being imported) to feed into the demand of a population of 200MN plus & growing which is currently being fed through competition from the informal sector, undocumented trade channel & poorly negotiated FTAs.

In the next 5YRS it is imperative for Pakistan to:

- (1) Reach scale in manufacturing
- (2) Reduce reliance on imported goods &
- (3) Start exporting by being competitive at a world wide level

Pakistan's manufacturing sector has to grow to become a more prominent part of the economy leading to an improved trade balance.



3 Acute Needs One Solution Make in Pakistan

Strong Domestic Industry with a Consumer Base of 207MN+



- (1) Strengthening Domestic Industry will lead to job creation.
- (2) Larger Scale will reduce cost and improve competitiveness
- (3) Leading to Increased Exports &
- (4) Consequently greater Economic Activity in the country will enhance the much required Tax Revenue.



Make in Pakistan

Is About

Long term policies to encourage manufacturing.

Reversing reliance on imports.

Creating jobs and upgrading human capital.

Broadening export products and destinations.

Leveraging 207 million consumers to build scale.

Not About

Protecting inefficient industry at consumers' cost.

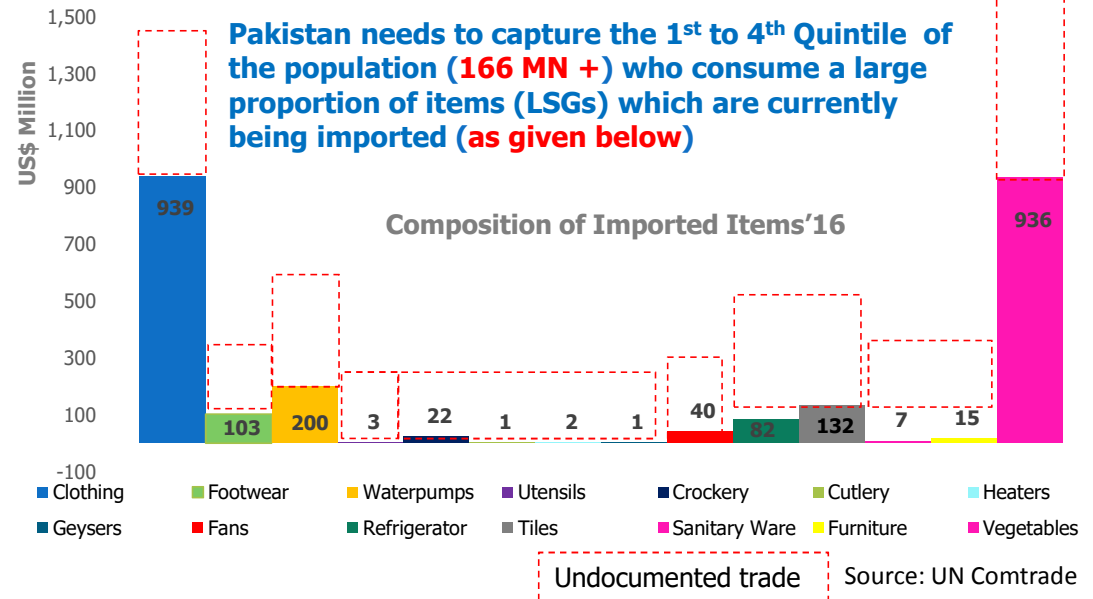
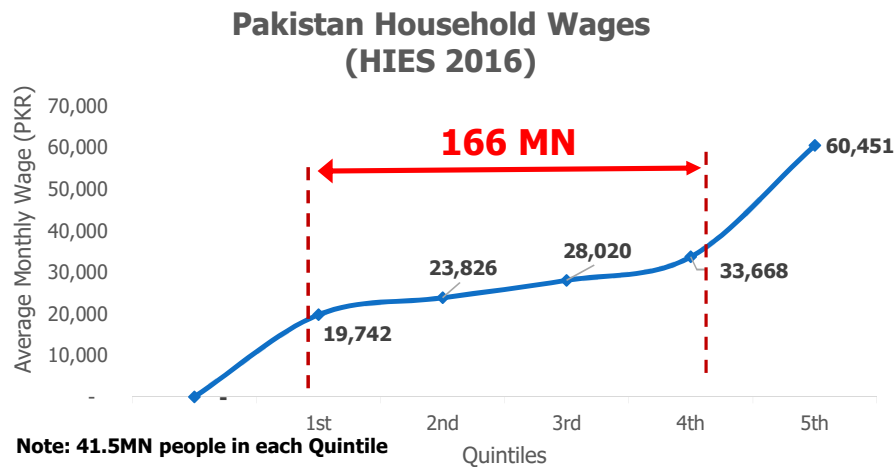
Denying exporters inputs at competitive prices.

Creating monopolies in the name of scale.

Exploiting Labour



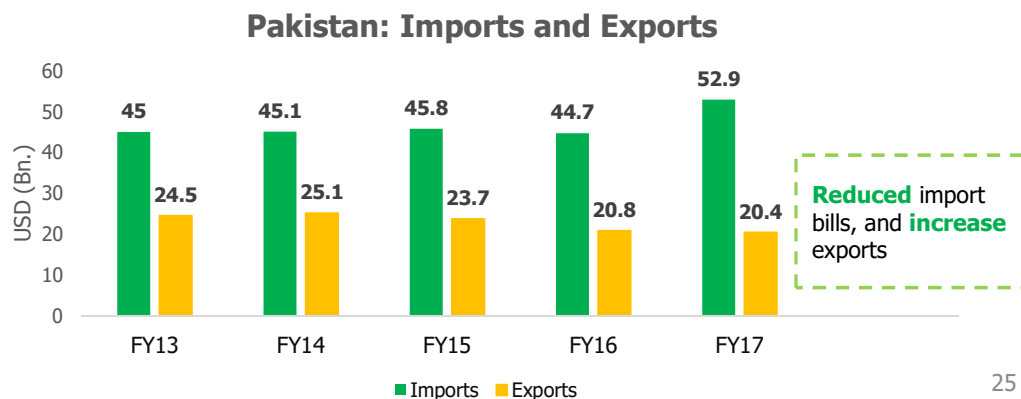
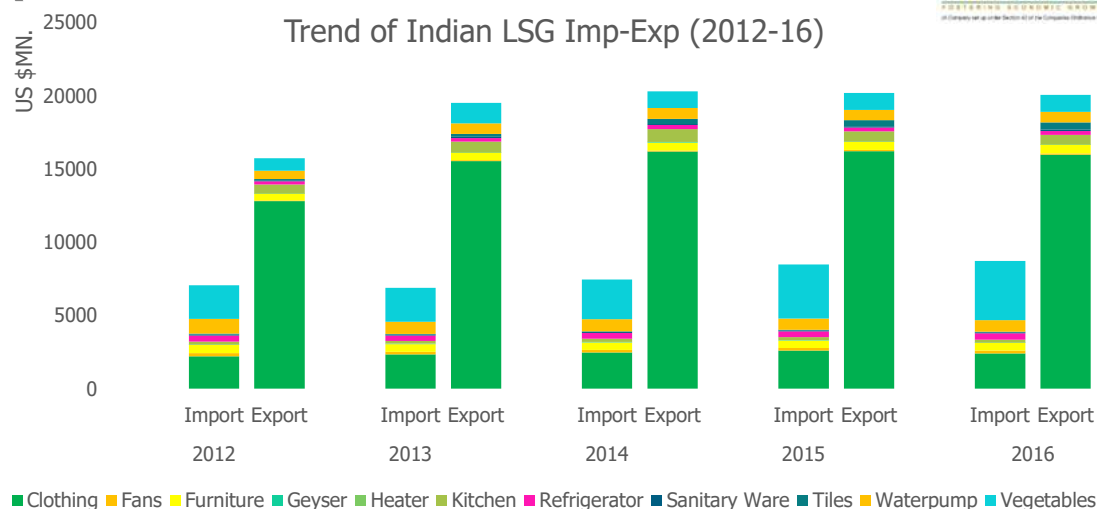
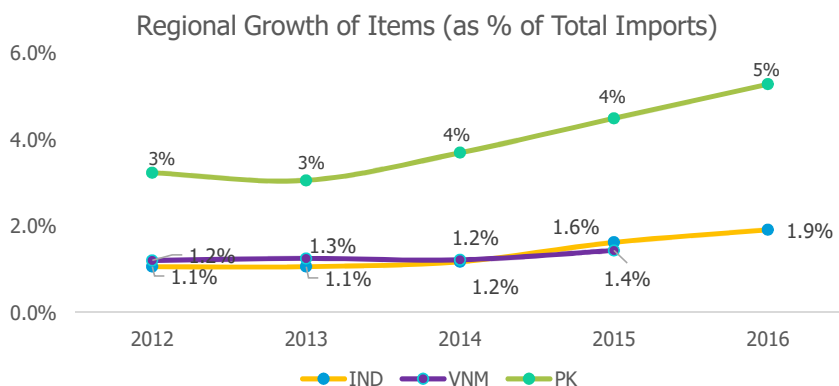
Realizing the Potential : Manufacture Locally to feed the demand of a surging population of 166MN.



At present the above LSG* (Low-Sophistication Goods) amount to US\$2.5BN of our declared import bill. **Pakistan needs to start manufacturing the above LSGs to serve the growing domestic market & build scale over the next 5-7YRS to be competitive & start exporting at an International Level.** With a demographic dividend of a young population & an opportunity to cater to 166MN local consumers – the manufacturing sector can drive substantial growth and contribute to the annual growth of 6 to 7% to the economy.

Regional Comparison & Outlook

The selected items (LSGs: Fans, Footwear, Crockery etc.) represent 5% of Pakistan Imports. In comparable regional economies it is as low as 1.4%.



Pakistan should aggressively work on its agenda to revive the manufacturing sector and aim at building scale and driving imports down by serving the domestic market locally.





Actions to promote the Local Manufacturing Industry

1: Stop Undermining domestic industry through ill negotiated trade agreements

Action Points	Timeline
1. Complete the renegotiation of the Pak China FTA.	Ongoing
2. Move with caution on agreements with Turkey and Thailand.	Immediate
3. Factor impact on jobs and tax collection into future agreements.	Immediate
4. Encourage value-added exports, not just of commodities	Immediate



2: Create a more level playing field for manufacturing

Action Points	Timeline
1. Withdraw the presumptive tax regime. All in taxable activity to file returns.	Immediate
2. Cascading tariffs on raw materials, intermediates and finished goods with special provisions for manufacturers who use high tariff inputs	Immediate
3. Remove RD on raw materials and intermediates	Immediate
4. Impose quantitative duties to check under-valuation.	Immediate
5. National Tariff Commission to be continuously functioning.	Ongoing
6. Levy import duty and GST on goods in transit to Afghanistan, refundable on export from Pakistan.	MT



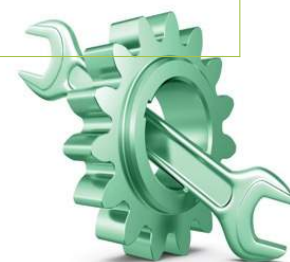
3: A long-term consistent export policy to replace knee-jerk, short term packages

Action Points	Timeline
1. Replace the 12-18-month export package with a 5-year, broad -based export policy to promote investment in capacity and capability building.	MT
2. Factor exchange rate and input cost disparity into export rebates	Immediate
3. Encourage value-addition and export destination diversification through more graduated rebates.	Immediate
4. Automate rebates to ease cash	Immediate



4: Fiscal policy should encourage corporatization, capital formation, accumulation, consolidation and investment

Action Points	Timeline
1. Withdraw Super Tax	Immediate
2. Abolish tax on less than 40% profit distribution	Immediate
3. Remove cascading tax on inter-company dividends	Immediate
4. Encourage risk-taking by withdrawing minimum tax on turnover for first three years of a business and then half the rate for the following two years.	Immediate
5. Promote corporatization through parity taxation of company profits with individuals and AOPs in business.	Next budget
6. Restore the group taxation regime enacted in the Finance Act 2010 to promote holding companies and wider shareholder participation.	Next budget



5: Develop policies and zones for the promotion of specific industries

Some Specific Industries	Timeline
1. Value-added/technical apparel/textiles, including man-made fibers	
2. Engineering, including but not limited to, auto-parts	
3. Bodies and components for domestic appliances	
4. Meat and milk processing	MT
5. Petro-chemicals e.g. Naphtha Cracker to feed plastics	
6. Low Sophistication Goods : such as footwear, crockery, fans, utensils etc.	



CONCLUSION

Pakistan's Manufacturing sector can continue to benefit because of the inherent advantages offered by the country such as favorable demographic dividend & strong domestic consumption.

However, we all need to develop a strategic plan which will place the sector on a higher trajectory by increasing manufacturing output leading to higher exports, creating job opportunities and decreasing our imports.

While it may take some time for Pakistan manufacturing to become a strong force to reckon with, "Make In Pakistan" can be viewed as a key foundation towards achieving that goal.

Thank you