



# Investment Opportunities in **PAKISTAN**

Commercial Section  
Consulate of Pakistan  
Chicago



# Vision

- Export Led Growth (Rapid Export Growth Strategy).
- Foreign Investment – Inflow of non-debt creating capital.
- Deregulation.
- Privatization.
- Enhancing Competitiveness.



# Security of Investment

- 1976 Foreign Private Investment Act.
- 1992 Protection of Economic Reforms Act.
- WTO commitments – Tariffs, Services and IPRs.



# GoP Paradigm: Policies

- **Economic liberalization** – ‘withering away of the state.’
- **Transparent privatization** – banking, energy, SOEs and telecomm.
- **Free markets** – trade liberalization and WTO commitments/FTAs.
- **Consumer protection** – regulatory bodies.
- **Regulatory oversight** -- SBP, SECP, PTA, NEPRA, OGRA, CCP, PEMRA, PPRA, HEC, PMDC, PEC & FAB.
- **Education and skills development** – HEC and NAVTEC.
- **Availability of credit** – SBP, commercial banks and SMEDA.
- **Banking & insurance reform** – SBP and SECP.
- **Stock market** – SECP reform agenda and foreign portfolio investment.
- **FDI** – Investment, development and capital formation without debt.
- **CBR/FBR overhaul** – Customs and Income Tax.
- **Trade Facilitation** – reducing cost of doing business and National Trade/Transportation Corridor – Gateway to Central Asia.
- **Infrastructure development** – roads, ports, railway and air transport.



# Snapshot of the Economy

- Growth (6.4%), inflation (8.4%) and unemployment (7.5%).
- GDP (PPP) \$451 billion (ExRt) \$143 billion.
- Population 164 million.
- GDP Per Capita (PPP) \$2753/- (ExRt) \$870/-
- GDP composition (services 54%, agri. 20% & manuf. 26%) and sectoral labor distribution (services 38%, agri. 44%, and manuf. 18%).
- Current Account Balance (-) \$6.5 billion.
- External Debt Stock \$40.2 billion.
- Forex Reserves \$15.8 billion.
- TB (-) \$10.4 billion.
- Exports \$20 billion (incl informal trade w/Afghanistan).
- Foreign Investment \$8 billion.
- Remittances \$5 billion.
- Foreign Assistance \$2 billion (est.)
- Growth sectors – agriculture (livestock, wheat, rice & cotton), manufacturing (textile/apparel, steel, chemical, fertilizer & cement), services (banking/finance, telecomm/IT, hospitality, warehousing/distribution, transport, medical & education).



# Key Gatekeepers

- Bol (Investment Policy) [www.boi.gov.pk](http://www.boi.gov.pk)
- SECP (Companies Ordinance and Stock/Capita Market) [www.secp.gov.pk](http://www.secp.gov.pk)
- SBP (Prudential Regulations and Policy Guidelines) [www.sbp.gov.pk](http://www.sbp.gov.pk)
- Ministry of Finance (Macro economic policy and Budget) [www.finance.gov.pk](http://www.finance.gov.pk)



# Investment Opportunities

- SMEDA (Pre-feasibility Studies).
- BoI (Matrix and Sectors).
- OPD (OPIC March 5-6, 2007).
- Privatization Commission/Ministry.



Policy Parameters	Manufacturing Sector	Non-Manufacturing Sectors		
		Agriculture	Infrastructure & Social	
Govt. Permission	Not required except 4 specified industries *	Not required except specific licenses from concerned agencies.		
Remittance of capital, profits, dividends, etc.	Allowed	Allowed		
Upper Limit of foreign equity allowed	100%	100%	100%	
Minimum Investment Amount (M\$)	No	0.3	0.3	
Customs duty on import of PME	5%	0%	5%	
Tax relief (IDA, % of PME cost)	50%	50%		
Royalty & Technical Fee	No restriction for payment of royalty & technical fee.	Allowed as per guidelines - Initial lump-sum upto \$100,000 - Max Rate 5% of net sales - Initial period 5 years		



# Sectors

- Telecomm.
- Financial Services (Banking and Insurance).
- Services (IT, Accounting, Legal, Medical, Education and Tourism).
- Energy (IPPs, Hydel, Wind and Solar).
- Construction/Housing/Engineering (DHAs).
- Commercial Real Estate Development (UAE and Malaysia).
- Infrastructure (RR, Roads, P&S and Airports).
- Agro-tech/Corporate Agricultural Farming (Dairies/Livestock, Fisheries, Farming and Food/Fruit processing and Horticulture).
- Manufacturing (Textiles and Apparel, Light Engineering, Pharmaceuticals, Medical, Sports and Leather garments).
- Mining (Marble/Granite/Onyx).



## Pakistan's Export & International Level Specialization in 11 out of 20 Globally Ranked

### 'Most Market Dynamic Products'

- Silk.
- Knitted Garments.
- Plastic Articles.
- Leather Manufactures.
- Non-alcoholic Beverages.
- Medical Instruments.
- Electrical Distribution Equipment.
- Textile Undergarments.
- Cereal Preparations.
- Knitted Fabrics.
- Pharmaceutical Products.



# Incentives -- I

- Categories: A (value added); B (high-tech & IT); C (priority industries) & D (agro-based industries) entitled to various benefits.
- Tariff rationalization – tariff slabs (0, 3, 5, 10, 20 & 25) based on value addition.
- Trade Policy 2007 – Long Term Fixed Rate Financing, EOU=EPZ, Equity Fund (brand acquisition/SPS support), subsidies for ISO compliance, freight subsidy, T2 imports, etc.
- Import/Export Orders -- exemptions.
- Bol – categories of industries (A, B, C, D), one window facilitation and networking.
- OPF/OPD – 50% discount at hotels.
- CBR/FBR – tax rebates, credits, exemptions and holidays.
- SBP– export financing schemes (LTF-EOP) via banks.



# Incentives -- II

- FDI protection.
- Forex security.
- Export/Import schemes.
- SBP/SMEDA Financing.
- Tariff reduction.
- 100% repatriation.
- 100% equity.
- No performance (local content) requirements.
- IT Parks.
- Industrial Parks.
- EPZs.
- Tax (holiday, duty drawback and GST refund) and subsidy relief.



# International Confidence Indicators

- Merrill Lynch: 'best privatization and deregulation story in Asia.'
- JP Morgan: 'growth rate amongst the region's fast growing economies.'
- FDI \$5 billion (FY2006-07).
- Portfolio Investment \$3 billion (FY2006-07).
- Stock market capitalization \$62.3 billion. KSE-100's robust performance.
- Islamic Sukuk \$600 million and Eurobonds \$2.5 billion.
- Country rating: (S&P) 'B+' foreign currency, 'BB' local currency long-term & 'B' short-term sovereign ratings, (Moody's) B1 and B2 (4-5 rungs below investment grade).



# American Companies in Pakistan

*The Coca-Cola Company*



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# Cost of Doing Business

- TI ratings/Corruption Perception Index (CPI score 138/179 in 2007; 142/163 in 2006; 144/158 in 2005; 129/145 in 2004).
- HDI – 134/177 (2006) and 136/178 (2005).
- Index of Economic Freedom – 89/161.
- IFC Cost of Doing Business Index – 59/178 (starting a business of 50 employees involves 11 procedures and 24 days).
- WEF GCI - 92/131 and BCI 79/127.
- EIU Risk Rating 64/100.
- WTO (TP Report) 2 TP reviews (1995 and 2002) passing marks and liberal policies.



# Cost of Doing Business -II

- Direct labor cost \$0.75/hour wage rate.
- Electricity cost 1/5 of total costs (\$0.09/Kw/hr).
- Transportation/freight cost to USA: 24.8% air & 6.4% by sea (regional average is 12.5% & 3-4%).
- Container Shipping Time: 25-35 days.
- Inland Rail/Road Transport - \$0.01-\$0.02/km/ton.
- Average landed tariff - 18.5% plus GST.
- GST – zero rating vs. 15%.
- Port Dwell Time – Exports 2 days/Imports 10 days.
- Customs Clearance – PRAL and PACCS.
- Red tape and speed money.



# Investor's Checklist

- 'Look see' preparatory visit.
- Feasibility study ([http://www.pakboi.gov.pk/Misc/project\\_brief.html](http://www.pakboi.gov.pk/Misc/project_brief.html); <http://www.smeda.org.pk/pre-feasibility.php>).
- RoI projection.
- ABCP (American Business Council of Pakistan).
- BoI/SMEDA/SECP interface.
- Due Diligence.
- Local partner/risk sharing.
- Local content/sourcing.
- Hiring a legal consultant.
- Checking land title transfer record.
- Legal instrument drafting/risk transfer & mitigation issues.
- Scrutinizing financing options- loan and equity issues.
- Assessing Land-Capital-Management-Labor costs -- the 'TFP equation'.
- Perseverance and patience.
- Consistency and constant follow up.



## Useful Websites

- [www.pakistan.gov.pk](http://www.pakistan.gov.pk) (GoP Gateway)
- [www.commerce.gov.pk](http://www.commerce.gov.pk) (Trade/Commerce)
- [www.pakboi.gov.pk](http://www.pakboi.gov.pk) (Investment)
- [www.privatisation.gov.pk](http://www.privatisation.gov.pk) (Privatization)
- [www.tdap.gov.pk](http://www.tdap.gov.pk) (Trade-Export)
- [www.sbp.org.pk](http://www.sbp.org.pk) (Finance and Regulation)
- [www.smeda.org](http://www.smeda.org) (SMEs)
- [www.cbr.gov.pk](http://www.cbr.gov.pk) (Tax/Tariffs)
- [www.secp.gov.pk](http://www.secp.gov.pk) (Capital/Stock Market/Companies)
- [www.pseb.org.pk](http://www.pseb.org.pk) (Pakistan Software Export Board)
- [www.opf.org.pk](http://www.opf.org.pk) (Overseas Pakistanis Foundation)
- [www.oicci.org.pk](http://www.oicci.org.pk) (Overseas Investment Chamber of Commerce)
- [abcpak@cyber.net.pk](mailto:abcpak@cyber.net.pk) (American Business Council of Pakistan)