U.S. DEPARTMENT OF STATE
DIPLOMACY IN ACTION

Executive Summary

Despite a relatively open foreign investment regime, Pakistan remains a difficult environment for foreign investors. An unpredictable security situation, chronic energy shortages, and a challenging business climate, including difficulties faced by investors related to timely settlement of disputes, intellectual property rights enforcement, and taxation issues have led to a precipitous drop in Foreign Direct Investment (FDI) in recent years. Net inflows of FDI peaked at $5.4 billion in fiscal year 2008, before dropping 73 percent in the following five years. Since the Pakistan Muslim League-Nawaz (PML-N) government took office in June 2013, the numbers have marginally improved: in the first nine months (July-March) of fiscal year 2014, net FDI was $669.8 million, up 6 percent year-on-year. More than half went to the upstream oil and gas sector.

The PML-N government of Prime Minister Nawaz Sharif was elected on pledges to turn around Pakistan's economy, enhance trade and investment, and solve ongoing energy shortages. In September 2013, the government and the International Monetary Fund (IMF) entered into a three-year $6.8 billion Extended Fund Facility (EFF) arrangement which sets forth a series of reform benchmarks. Since taking office, the government has implemented some macroeconomic and energy reforms, and resumed dormant privatization efforts, beginning with plans to sell government stakes in 31 public companies identified by the IMF. In April 2014, the government completed a successful, long-awaited 3G/4G wireless spectrum auction and anticipates that 3G/4G services will be introduced before the end of 2014.

The United States is consistently one of the largest sources of foreign direct investment in Pakistan and one of Pakistan's largest trading partners. The Karachi-based American Business Council (ABC), an affiliate of the U.S. Chamber of Commerce, has a membership of 63 U.S. companies operating in Pakistan across a range of industries, many of which are Fortune 500 companies. The Lahore-based American Business Forum (ABF) provides a similar platform for U.S. investors. American companies have experienced profitable investments across a range of sectors, most notably, fast-moving consumer goods and financial services.

The United States and Pakistan signed a Trade and Investment Framework Agreement (TIFA) in 2003, and TIFA Council Meetings between the two sides are held annually. The United States and Pakistan opened negotiations on a Bilateral Investment Treaty (BIT) in 2004. Negotiations occurred intermittently (most recently in August 2012) but are currently stalled.

1. Openness To, and Restrictions Upon, Foreign Investment

The Government of Pakistan welcomes foreign investment and offers some incentives to attract new capital inflows, including tax exemptions, reduced tariffs, and infrastructure and investor facilitation services in designated special economic zones. Since 1997, Pakistan has established and maintained a largely open investment regime. In order to increase its competitiveness as an investment destination, the Government of Pakistan (GOP) announced the Investment Policy 2013, which further liberalizes investment policies to nearly all sectors.

Despite this openness to foreign direct investment (FDI), net inflows of FDI have declined sharply in Pakistan over the last five years, from a peak of $5.4 billion in fiscal year (FY) 2008 to $1.46 billion in FY 2013. (Pakistani fiscal year runs July-June.) Analysts attribute this overall decline to the deteriorating security environment, the chronic energy crisis, and macroeconomic instability, among other factors. Pakistan remains a profitable market for fast moving consumer goods, and multinational corporations have a robust presence in this sector and a number of others. Future foreign investment inflows will depend on how the GOP addresses the above challenges. There is need for an improved law and order situation, enhanced legal protection for foreign investment, including intellectual property rights, and a clear and consistent policy of upholding contractual obligations and settlement of tax disputes.

The current government, which took office in June 2013, is actively seeking to reverse the decline in FDI by courting international investors through the Board of Investment (BOI). In the first nine months (July-March) of FY 2014, net FDI inflows were $669.8 million, up 6 percent year-on-year. Pakistan's Overseas Chamber of Commerce and Industry (OICCI), which represents 196 foreign investors in Pakistan, released a "Perception and Investment Survey" in January 2014 which showed that more than 80 percent of its members were optimistic that the new government would improve the business climate. (http://oicci.org/wp-content/uploads/2013/08/OICCI-Perception-Investment-Survey-2013.pdf).

Foreign investors in the **services** sector may retain 100 percent equity "for the life of the investment." Pakistan eliminated minimum initial capital investment requirements in all sectors including **services** in its 2013 Investment Policy. Now there is no minimum requirement for the amount of foreign equity investment in any sector. Also, there is no upper limit on the share of foreign equity allowed, except in specific sectors including **airline**, **banking**, **agriculture** and **media**. 100percent percent repatriation of profits is allowed in the **services** sector. Investors need to obtain licenses from the Pakistan Telecommunication Authority in order to start a cellular operation network. In the social and infrastructure sectors, 100percent percent foreign ownership is allowed. In the agricultural sector, 60percent percent foreign ownership is allowed. Corporate farming is permitted, though only companies incorporated in Pakistan can own land used for this use. The GOP allows remittance of full capital, profits, and dividends, and dividends are tax-exempt. There are no limits on the size of corporate farming land holdings and the sector is allowed to lease land for 50 years, with renewal options. The raw material and machinery for agricultural and agro-based industries can be imported at 0percent percent custom duty. The tourism, housing, construction, and information technology sectors have been granted "industry" status, which means they are eligible for lower tax and utility rates than banks, insurance companies, and other businesses that are considered a part of the "commercial sector." Only Pakistanis can invest in small scale **mining** valued at less than Rs. 300 million (about $3 million).

In FY 2007, Pakistan eliminated some tariff incentives provided for various manufacturing sub-sectors, specifically the value-added, priority, and high-tech industries. Currently, the manufacturing sector pays up to 5percent percent customs duty on imported plant and machinery. In its FY 2007 budget, the government eliminated sales tax on all types of plant and machinery. Export industries are entitled to duty-free import of raw materials. There is no minimum equity investment or national ownership requirement for investments in the manufacturing sector and the GOP allows a 25percent percent first-year depreciation allowance for all fixed assets. The agriculture sector is entitled to the import of plant and machinery free of duty. The GOP also allows 25percent percent of the cost of plant and machinery as first year depreciation allowance in infrastructure and social sectors.

Foreign investors in Pakistan sometimes complain of a confusing array of federal and provincial taxes and controls. These taxes are often assessed with considerable administrative discretion, resulting in discrimination among taxpayers, inefficiency, and corruption. Attempts to reform the tax system date back to the 1980s and have failed to yield any significant results. Pakistan has one of the lowest tax-to-GDP ratios in the world (about 9percent percent in 2013). The tax regime is discriminatory and poorly connected multinational corporations shoulder a large portion of the tax burden. The number of approvals, permits, and licenses required from various governmental entities prior to launching a business project posed a significant hurdle to investment in Pakistan in the past, but many of these licenses and permits have been removed over the last several years. Mandatory Board of Investment (BOI) investor registration is no longer required, but investors still must register with the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP).

Since 1997, the GOP no longer screens industrial sector foreign investment unless investors apply for special incentive packages or government tariff protection and price guarantees. The same year, the GOP also eliminated requirements that foreign investors seek provincial government clearance for project location.

The GOP is committed to providing full national treatment and legal protection to foreign investment in all but designated “sensitive” sectors which include **defense** and **broadcasting**. The 1976 Foreign Private Investment Promotion and Protection Act specifically provides that foreign investment will not be subject to higher income tax levels than those assessed on similar investments made by Pakistani citizens. This act and the 1992 Economic Reforms Act are the primary statutory safeguards for the rights of foreign investors. While Pakistan's legal framework and economic strategy do not discriminate against foreign investment, contract and other legal enforcement can be problematic given the domestic court system's inefficiency and lack of transparency. The SECP regulates the insurance industry, while the SBP oversees the banking sector. The GOP opened the insurance industry as part of its **financial sector** reforms. In 2007, the government allowed 100percent percent foreign equity in the insurance business subject to the condition that foreign investors are required to bring in minimum paid up capital of $5.3 million in life insurance and $3.1 million in non-life/general insurance.

Pakistan improved its **financial services** commitments after signing the World Trade Organization (WTO) Financial Services Agreement in December 1997. Foreign firms have the right to establish new banks, and foreign banks and securities firms can grandfather previously owned rights. Foreign banks are permitted to establish branches as well as wholly-owned locally incorporated subsidiaries, subject to the condition that they have global tier-1 paid up capital of $5 billion or more, or they belong to countries which are part of regional groups and associations, of which Pakistan is a member (e.g., the Economic Cooperation Organization – ECO, and the South Asian Association for Regional Cooperation – SAARC). Foreign banks that do not meet these conditions are capped at a 49percent percent foreign equity stake. Currently, foreign banks, like local banks, must submit an annual branch expansion plan to the SBP for approval. The SBP approves new branch openings based on the bank's net worth, adequacy of capital structure, future earnings prospects, credit discipline, and the needs of the local population. However, all banks, including foreign banks, are required to open 20percent percent of their new branches in small cities, towns, and villages.

The **financial sector** in Pakistan was opened to private sector (both for local and foreign investment) in 1989 as a part of Federal Government's policy of deregulation and privatization. The State Bank of Pakistan has placed a moratorium on setting up of commercial banks owned 100percent percent by local sponsors. Following the WTO commitments, Pakistan permits foreign financial institutions/entities either directly or in collaboration with local partners/sponsors to open commercial banks.

With the prior approval of the SBP, foreign banks whose headquarters hold paid up capital (free of losses) of at least $300 million and have a capital adequacy ratio of at least 8percent percent are allowed to maintain the following minimum capital requirements: foreign banks operating up to five branches are required to maintain their assigned capital at $28 million and foreign banks operating six to 50 branches are required to maintain assigned capital at $56 million. Foreign banks operating above 50 branches are required to maintain assigned capital at $94 million. In 2009, the SBP also raised the required minimum capital adequacy ratio for banks and development finance institutions to 10percent. percent.

Pakistan permits most-favored-nation (MFN) exemptions in the **financial** and **telecom** sectors, with a view to preserving reciprocity requirements and promoting joint ventures among Economic Cooperation Organization countries (Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, Afghanistan, Iran, Turkey and Pakistan). Islamic banks in Pakistan are subject to the same regulatory requirements as traditional banks.

The GOP's privatization of state-owned enterprises (SOEs) stalled in 2008, and the GOP did not earn any money through privatization in FY 2013. Between 2002 and 2007, Pakistan attracted significant foreign investment through the privatization of SOEs in the **financial services** and **telecommunications sectors**. The current government has resumed privatization efforts and committed in the IMF Extended Fund Facility to privatize 31 SOEs by the end of 2014, beginning with the sale of government stakes in high-performing publicly-traded firms via capital markets transactions. Plans to privatize large state-owned firms including Pakistan Railways, Pakistan International Airlines (PIA) and Pakistan Steel will require significant restructuring prior to privatization and are likely to face substantial political resistance. Foreign investors are permitted to bid on state-owned industries and **financial institutions** on terms equivalent to those offered to local investors. The GOP has limited government powers to oversee or investigate privatization transactions for up to one year following execution.

Mergers are allowed between multinationals as well as between multinationals and local companies. The 1984 Companies Ordinance governs mergers and takeovers.

TABLE 1:

Measure	**Year**	**Rank or value**	**Website Address**
TI Corruption Perceptions index	2013	(127 of 177)	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	(126 of 177)	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	(110 of 189)	http//doingbusiness.org/rankings
Global Innovation Index	2013	(137 of 142)	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	$1,260	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

TABLE - 1B Scorecards: The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a 2012 per capita gross national income (GNI) of $4,085 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: http://www.mcc.gov/pages/selection/scorecards. Details on each of the MCC's indicators and a guide to reading the scorecards, are available here: http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf

2. Conversion and Transfer Policies

The SBP maintains tight control on the exchange rate and imposes informal controls on transferring foreign exchange. De jure, there are no limits on dividends, remittance of profits, debt service, capital, capital gains, returns on intellectual property, or payment for imported inputs; however, banks report that they must justify all outward flows of foreign currency with underlying trade documents. Additionally, the Government recently reduced the maximum limit of carrying physical cash abroad to $5,000 from $10,000. Though there are no restrictions on payment of royalties and technical fees for the manufacturing sector, there are some limitations on the non-manufacturing sector, including limiting initial royalty payments to $100,000 and capping subsequent royalty payments to 5percent percent of net sales for 5 years. Royalty and technical payments are subject to 15percent percent income tax. Investor remittances can only be made against a valid contract or agreement that must be registered with the SBP within 30 days of execution.

Seeking to support cross-border payments of interest, profits, dividends, and royalties, the SBP eliminated the requirement that commercial banks notify it before issuing foreign exchange in 2002. Banks still have to report loan information to the SBP, which then verifies that remittances match the repayment schedule.

In June 2004, the State Bank of Pakistan required informal money changers to register as foreign exchange companies, and these companies became subject to auditing by the SBP. This resulted in the consolidation of the foreign exchange regime, subjecting it to more stringent regulations, including higher minimum capital requirements and stricter monitoring. These exchange companies are permitted to buy and sell foreign exchange to individuals, banks, and other exchange companies, and can sell foreign exchange to incorporated companies for remittance of royalties, franchises and technical fees. In recent years there has been an increase in workers' remittances sent through these companies. In partnership with State Bank of Pakistan, the Ministry of Overseas Pakistanis and the Ministry of Finance, the Pakistan Remittance Initiative (PRI) was established in 2009 to achieve the objective of facilitating a faster, cheaper, and more efficient flow of remittances. As per Section 114 (4) of the 2001 Income Tax Ordinance of Pakistan, the government has given tax exemption to any amount of foreign exchange remitted from outside Pakistan through normal banking channels which are converted into rupees.

3. Expropriation and Compensation

Foreign direct investment in Pakistan is protected from expropriation by the 1976 Foreign Private Investment Promotion and Protection Act, and by the 1992 Furtherance and Protection of Economic Reforms Act.

4. Dispute Settlement

Pakistan's legal system is based on British law, with an overlay of Islamic legal precepts. Tiers of civil and criminal courts begin at the tehsil (sub-district) level and end at the Supreme Court, with each province having a high court. The provincial high courts hear appeals from judgments of the district courts (for civil cases) and session courts (for criminal cases). Often the same individual sits as both a district and sessions judge. The Supreme Court hears appeals from the provincial high courts, referrals from the federal government, and cases involving disputes between provinces or between a province and the federal government. There are also a number of special courts and tribunals to deal with specific types of cases, such as taxation, banking, and labor. Commercial cases in the courts typically take years to resolve, and most foreign investors typically write into their contracts the right to international arbitration. Pakistan does not have a bankruptcy law. Bankruptcy is usually handled through court-appointed liquidators who sell off the property of a bankrupt company, but this process is slow and can take many years.

In 2004, Pakistan's Cabinet approved Pakistan joining the 1958 New York Convention on Recognition and Enforcement of Foreign Arbitral Awards ("New York Convention"). The New York Convention was then ratified by Pakistan's Cabinet in 2005, but the ordinance implementing the Convention expired in August 2010. Pakistan's National Assembly reenacted the New York Convention on July 15, 2011.

Pakistan is a member of the International Center for the Settlement of Investment Disputes (ICSID). The Center provides facilities for conciliation and arbitration of investment disputes between contracting states and nationals of other states under the Convention for the Settlement of Investment Disputes. The Pakistan Arbitration Act of 1940 also provides a mechanism for arbitrating commercial disputes. A previous dispute between a major U.S. multinational and its local Pakistani partner raised concerns in the international investor community over how arbitration clauses are handled in Pakistan. In 1998, this company filed a lawsuit, and despite a 2000 ruling of the International Chamber of Commerce (ICC) Arbitral Panel in favor of the U.S. investors, and a 2005 pronouncement by a Lahore civil court upholding the ICC decision, local parties continued litigating the matter in Pakistani courts for many years. The Lahore High Court eventually ruled in favor of the U.S. multinational company and upheld the original arbitration settlement. The case was finally resolved when the local party withdrew its appeal of the decision in June 2009.

Several other high profile foreign investment disputes in the **mining** and **energy** sectors remain active cases in Pakistani courts.

5. Performance Requirements and Investment Incentives

Current GOP investment policy provides that all incentives, concessions, and facilities for industrial development be equally available to domestic and foreign investors. Prior year budgets have contained some additional incentives for export industries, but most tax incentives are promulgated by Special Regulatory Order (SRO) by the Federal Board of Revenue (FBR). For example, sales taxes on plant and machinery were abolished, as were customs duties on imported **agricultural machinery**. Customs duties for machinery imported by the manufacturing and social service sectors range between 0-5percent. percent. Export-oriented industries have also been granted customs duty exemptions on the import and purchase of raw materials. The FY 2014 budget retained all these incentives. In 2011, the GOP imposed sales taxes ranging between 4- 6percent percent on unregistered supply chain goods of export-oriented sectors including **textile**s, **surgical**, **sports**, **leather**, and **carpets**. Registered supply chain goods of these sectors remain exempt from sales tax, but retailers in these sectors are charged a 4percent percent sales tax irrespective of registration. Close to 94 percent of the tariff lines fall in the 0-30 percent tariff rates range. Vehicles attract the highest duties. The GOP reduced the number of duty slabs from 8 to 7. The GOP further reduced customs duty on 88 pharmaceutical raw materials and other input goods from 10percent to 5percent. As part of its IMF program, Pakistan has pledged to reduce the number of tariff slabs.

Petroleum companies receive royalties at the rate of 12.5percent of the value of petroleum at the field gate.

There are no conditions imposed on the transfer of **technology**. Foreign investors are allowed to sign technical agreements with local investors with no requirement to disclose proprietary information. According to the Investment Policy 2013, industrial units bringing in **technology** that is not available in Pakistan for the first time shall be declared as pioneer industry and will be provided the same incentives that are available in Special Economic Zones (SEZs).

The 2007-08 trade policy duplicated export processing zone (EPZ) incentives. Existing enterprises exporting at least 80percent percent of their production are eligible for incentives under this program, but new enterprises are required to export 100percentpercent of their production in order to be eligible. In 2013, the GOP issued a Strategic Trade Policy Framework 2012-15, which also retains these measures. For new investments, a 25percent first-year depreciation allowance for plant, machinery, and equipment can be used to offset taxable income, and unused allowances can be carried forward. An investment tax credit of up to 25percent of the cost of plant, machinery, and equipment is available to encourage plant expansion and modernization.

With a recommendation letter from a foreign chamber of commerce, an invitation letter from a business endorsed by the Chamber of Commerce of Pakistan, or a recommendation letter from one of Pakistan's foreign commercial attachés, most U.S. businesspeople are granted multiple entry visas valid for five years with a three-month stay at Pakistani Embassies and Consulates. Technical and managerial personnel are not required to obtain special work permits in sectors that are open to foreign investment, including the **manufacturing**, **infrastructure**, **agricultural**, **services**, **health**, and **education** sectors. The duration of work visas for technical and managerial personnel are one year and can be extended on a yearly basis.

6. Right to Private Ownership and Establishment

Foreign and domestic investors are free to establish and own businesses in all sectors except five: arms and munitions manufacturing, high explosives manufacturing, currency/mint operations, non-industrial alcohol manufacturing, and radioactive substance manufacturing. In retail **food sales**, the GOP has influenced pricing of essential **foodstuffs** (such as flour, rice, and lentils) through its several hundred Utility Stores. Market leaders in the cement and sugar industries are alleged to have formed cartels. Investment in the **energy** sector, particularly conventional gas, is stymied by a policy that underprices resources and fails to safeguard contracts, and by an evolving relationship between and among the federal and provincial governments, whose views on the disposition of natural resources do not always match. The 2012 **Petroleum** Policy, adopted in August 2012, increased the wellhead price for natural gas to $6 per million British thermal units (mmbtu), as part of an effort to increase exploration and attract new investors to this sector.

7. Protection of Property Rights

Pakistan's legal system offers incomplete protection for the acquisition and disposition of property rights. The 1979 Industrial Property Order safeguards industrial property in Pakistan against compulsory acquisition by the government without sufficient compensation, even in the public interest, in accordance with provisions of the law. The order protects both local and foreign investment. The 1976 Foreign Private Investment Promotion and Protection Act guarantees remittance of profits earned through sale and appreciation in value of property.

Pakistan remained on USTR's Priority Watch List in the 2014 Special 301 review of intellectual property rights (IPR). The report cites weak protection and enforcement of IPR, particularly with respect to copyrights, **pharmaceutical** data, and **media** piracy. Pakistan did not take any significant steps to improve copyright enforcement, especially with respect to addressing book and optical disc piracy in 2013. Only a very small proportion of arrests resulted in prosecutions, and the few verdicts issued resulted in minor sentences. To address this, Pakistan should take steps to fully implement the Intellectual Property Organization of Pakistan Act of 2012 (IPO Act), particularly by establishing specialized IP Tribunals and an operational Policy Board. The GOP has identified intellectual property protection as a key area for its "second generation" economic reforms.

Pakistan has enacted five major laws relating to patents, copyrights, trademarks, industrial designs and layout designs for integrated circuits, but the laws' impact has been limited by weaknesses in the legislation and/or enforcement.

In April 2005, in an effort to improve the protection of intellectual property within Pakistan, the Government of Pakistan transferred inter-agency responsibility for the enforcement of intellectual property laws to the Federal Investigation Agency (FIA). FIA staff received specialized training in intellectual property enforcement and technologies, which enabled the agency to expand enforcement operations to target manufacturers of pirated goods. Expanding manpower and training at the FIA remains a key challenge. The Federal Board of Revenue (FBR), which manages customs authority in Pakistan, faces numerous challenges in properly identifying and interdicting counterfeit material at Pakistan's borders. However, in a promising sign, it recently established an IPR Directorate with the aim to improve capacity and increase interdiction of counterfeit goods.

Also in 2005, in response to longstanding domestic and international criticism of Pakistan's lack of a functioning central IPR regulatory and enforcement authority, as well as the need to implement its WTO obligations in the Agreement for Trade Related Aspects of Intellectual Property Rights (TRIPS), the Pakistani President created the Intellectual Property Organization (IPO). IPO, a semi-autonomous body under the administrative control of the Pakistani Cabinet, consolidates into one government agency the authority over trademarks, patents, and copyrights – areas which were previously handled by offices in the three separate ministries. IPO's mission is to initiate and monitor the enforcement and protection of intellectual property rights through law enforcement agencies, in addition to dealing with other IPR-related issues. While IPO's establishment represented an important milestone, it has not led to consistently measurable results in terms of increased public awareness of intellectual property rights, stepped up enforcement, or prompt action to address specific legislative and policy weaknesses. IPO has conducted training courses for IP professionals in accordance with WIPO standards. The Intellectual Property Organization law was adopted in November 2012, and provides for specialized IPR tribunals to adjudicate cases and a policy board with private sector representation to assess policy decisions. The GOP made no progress in implementing the provisions of the Law during the last one year. The Intellectual Property Organization forwarded the proposal to form the Policy Board to the Cabinet, but the Cabinet still has not approved it. The establishment of the IPR tribunals remains pending with the Ministry of Law. Pakistan has made some progress against large-scale illegal optical disc production and retail sales of pirated and counterfeit products, but needs to increase enforcement actions against book piracy, aggressively prosecute IPR crimes, and ensure that its courts issue deterrent-level sentences for IPR infringers.

Pakistan's government has made no tangible progress to further protect **agricultural** IPR. Pakistan does not enforce intellectual property rights for genetically modified organisms (GMO). This has deterred U.S. seed companies from entering the Pakistani market. In 2006, the (now defunct) Ministry of Food & Agriculture introduced legislation to Parliament outlining Breeders Rights for Planting Seeds to set standards to protect against illegal multiplication of seeds and better controls on seed certification. The Ministry also introduced legislation to place tighter controls on seed companies in registering certified seed and producing quality seed. Parliament has not yet voted on either piece of legislation, and it is unlikely to take up the legislation in the short term. Seed labeled "certified" often has less than a 50percent germination rate, compared to well over 90percent in the United States. U.S. seed companies have failed to negotiate a deal with government officials to allow for the legal introduction of biotech cotton seed into Pakistan.

Pakistan is a party to the Berne Convention for the Protection of Literary and Artistic Works, and is a member of the World Intellectual Property Organization (WIPO). On July 22, 2004, Pakistan acceded to the Paris Convention for the protection of industrial property. Pakistan has not yet ratified the WIPO Copyright Treaty nor the WIPO Performance and Phonograms Treaty.

Patents

Pakistan enacted a patent law in 2000 that protects both process and product patents in accordance with its WTO obligations. Under this law, both the patent-owner and licensees can file suit against those who infringe. A Patent Ordinance in 2002 weakened the 2000 Patent Law by eliminating use patents, restricting patent filings to single **chemical** entities, limiting protection for derivatives, and introducing barriers to patenting biotechnology-based inventions. This change generated great concern among U.S. pharmaceutical firms seeking to sell patented drugs in Pakistan. In addition, the GOP has not implemented patent linkages, effectively authorizing the sale of pharmaceuticals without requiring checks to confirm that another firm does not hold an active patent on the compound. Pakistan has failed to make progress in providing effective protection against unfair commercial use of undisclosed test and other data generated to obtain marketing approval for pharmaceutical products. Although draft data protection regulations were formulated in 2009, the regulations remain under GOP review and have not been promulgated. Pakistan currently does not have an effective system to prevent the issuance of marketing approvals for unauthorized copies of patented pharmaceutical products. In 2009, Pakistan's President issued an ordinance that removed an 18-month patent application processing deadline, slowing the processing of pending patent applications. This ordinance has frustrated the pharmaceutical industry, as many companies have already been waiting for years for approval of their product patents. The GOP maintains that other countries do not adhere to an 18-month application processing period. While the former Health Ministry claimed that this change was made to avoid litigation in view of capacity constraints, the ordinance has effectively created an environment where the potential for discriminatory treatment exists.

Trademarks

Pakistan promulgated its Trademarks Ordinance in 2000, which provides for the registration and better protection of trademarks, and restricts the use of fraudulent trademarks. The ordinance has been enforced since April 2004, after the enactment of implementing rules. The GOP has eliminated the requirement that pharmaceutical firms label the generic name with at least equal prominence to that of the brand name on all products. Trademark infringement remains widespread. The Competition Commission of Pakistan (CCP) has authority under Section 10 of the Competition Act to take action against companies for “deceptive marketing practices” for using other companies’ trademarks in advertising. The CCP is working on an MOU with the IPO regarding authority over such cases.

Copyrights

Pakistan remains a predominantly pirate book market, although print piracy is slowly giving way to pirate photocopying. The informal markets (“Bazaars”) in Karachi and Lahore, once major sources of pirated books, were raided in 2013, although book piracy has continued to spread. Pirates now focus attention on illegal photocopies made from one master/source copy legitimately purchased online or overseas, and slapping on a higher-quality color-printed book cover. The printing of title covers has taken on a new dimension, since pirates now often print the pirated book obscuring the author’s names, publisher’s names, logos, ISBN numbers, etc. Print piracy consists of smuggled books from Iran and Afghanistan by land, Saudi Arabia by air, or overruns by legitimate printers in Pakistan. Unauthorized India-only reprints are also being imported into Pakistan. All types of books are pirated, from English language novels to fiction and non-fiction trade books. Pirate booksellers are highly organized, well-connected, and often succeed in convincing authorities to drop cases immediately after any enforcement action or avoid enforcement action altogether. In some cases, they have even resorted to threats of violence and intimidation to avoid enforcement. Some pirate enterprises are now able to produce fairly high-quality counterfeit copies that are difficult to differentiate from legitimate versions. Additionally, the National Book Foundation continues to claim it may avail itself of compulsory licenses to copy books even though doing so is incompatible with Pakistan’s international obligations under the Berne Convention. According to the International Property Alliance, the **publishers** operating in Pakistan report that overall the situation in Pakistan has improved slightly due to increased enforcement activity, claiming that piracy levels are proportionately similar to Bangladesh, Iran, and Sri Lanka. Pakistani authorities, especially the Federal Investigations Agency (FIA) in Islamabad, have taken some actions against book piracy in the Bazaars and throughout Pakistan.

Despite significant public awareness and enforcement drives by the Business Software Alliance over the past several years, enterprise end-user software piracy remains a serious problem. The GOP did not take any significant steps to improve copyright enforcement in 2013, especially with respect to optical disc piracy. Not all of arrests resulted in prosecutions, and the few verdicts that were issued resulted in imposition of insignificant sentences. Optical **media** piracy remains a major concern in Pakistan. The import and export of pirated **media** was banned under the 1969 Customs Act. However, the easy import of pirated movies and music CDs and DVDs continues in large quantities from China.

Pakistan’s Federal Investigation Agency (FIA) continues to conduct occasional raids. The accused parties, however, engage highly paid and high-profile lawyers while the services of FIA’s Prosecutors are confined to limited courts. In most of the cases, higher courts have stayed the investigation / prosecution proceedings and justice was deterred for want of special prosecutors demanding very high fee. Moreover, Pakistan is now reportedly being used as conduit for infringing products transiting from Russia, Malaysia, Singapore, China, Bangladesh, and Sri Lanka for onward distribution to third countries. Since 2008, the factory production of pirated optical software has become less prevalent as vendors have started manufacturing and selling their merchandise from residential locations, which they continue to do with impunity. Occasional enforcement action has done little to dent the market for pirated goods, as pirated CDs, books, movies, and software remain readily available in most local markets in Pakistan.

Internet use continues to rise in Pakistan, and online piracy in Pakistan is also a problem. Publishers report that reference books, online journals, and trade books are being digitized and provided by schools. Thus far, no steps have been taken to address increasing online piracy or illegal digitization. Pakistan has thousands of mostly local and small-scale cable television operators nationwide. The Pakistan Electronic Media Regulation Authority (PEMRA) has prohibited cable operators from displaying pirated content, but the FIA has been unable to enforce this provision. Cable operators frequently broadcast pirated material.

The Industrial Designs Law provides for the registration of designs for a period of ten years, with the possibility of extending the registration for two additional ten-year periods. The Law for Layout Designs of Integrated Circuits provides for protection of layout designs for ten years starting from its first commercial exploitation anywhere in the world. Penalties and legal remedies are also available in case of infringement on industrial designs, layout designs and trademarks. Implementing rules to enforce these ordinances remain incomplete. In 2009, the Cabinet approved a draft Plant Breeder's Rights Law and an amendment to the Seed Act of 1976, both of which are pending approval in Parliament and passage from the provincial assemblies.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Embassy point of contact: Hamza Khan KhanHS@state.gov

Local lawyers list: http://islamabad.usembassy.gov/cs_legalinfo.html

8. Transparency of the Regulatory System

A number of government agencies oversee commercial and financial regulatory regimes, including the Securities and Exchange Commission of Pakistan (SECP), the Board of Investment (BOI) and the State Bank of Pakistan (SBP). While Pakistani law provides for recourse against adverse administrative decisions, the legal system remains backlogged and long court delays are common. The SECP is responsible for company administration under the 1984 Companies Ordinance and regulates securities markets through its Securities Market Division. The SECP and the national stock exchanges have cooperated to streamline procedures to register and list securities. Equity markets are regulated by the 1969 Securities and Exchange Ordinance and by the 1971 Securities and Exchange Rules. Winding up of the companies takes place under Companies Ordinance 1984 and banking companies exit takes place under Banking Companies

Ordinance 1962. SECP and SBP have further streamlined the process for filing for bankruptcy and liquidation.

A Takeover Ordinance was enacted in 2002. Under Section 40 of the 1997 SECP Act, the SECP publishes draft regulations to seek public comment prior to their finalization. The SBP, in its role as bank regulatory authority, consults with commercial banks on proposed regulations. The FBR issues Statutory Regulatory Orders (SROs), which are used either to reduce duties to give special relief to certain sectors or to enhance duties. The FBR does not solicit public input on SROs.
The Competition Commission of Pakistan (CCP) is responsible for regulating the anti-competitive and monopolistic practices of both private sector and public sector organizations. A competition ordinance, drafted with technical assistance from the World Bank, was approved by Pakistani Cabinet in June 2007, and resulted in the creation of the CCP. Previously, competition law in Pakistan was under the jurisdiction of the Monopoly Control Authority, an independent regulatory authority that lacked enforcement capacity.

The Monopoly Control Authority regulatory oversight suffered from resource constraints, and state-owned enterprises (SOEs) were exempt from its provisions. Thus, in Pakistan, where SOEs dominate several sectors, competition regulation remained incomplete. A new Competition Commission Bill was signed by the President and became law on October 6, 2010. This law codified the mandate of the CCP into law, and revised the appeals process to include an Appellate Tribunal in Islamabad consisting of a retired judge and three private sector participants, who are tasked to deliberate and issue decisions within six months. The law also reduced the fine on offenders from 15percent of turnover to 10percent, and authorized the CCP to collect 3percent of the earnings of other major regulatory agencies to supplement their budget. CCP has issued 65 orders against the monopolies and anti- competitive practices during the period April 2008 through November 2013.

With the end of licensing regimes, the rationalization of bureaucratic controls, and broad-based market liberalizations, market entry barriers have been reduced but not fully eliminated.

9. Efficient Capital Markets and Portfolio Investment

Pakistan's **financial sector** policies support the free flow of resources in product and factor markets for domestic and foreign investors. The SBP and the SECP continue to expand their regulation and oversight of financial and capital markets. The banking sector is moderately concentrated with the top five banks by asset size representing 52.6 percent of sector assets, and of these banks only one is state-owned. In 2013, banking sector assets totaled $107 billion. As of December 2013, net non-performing bank loans (NPLs) total approximately $1.3 billion, or 3.1 percent of net total loans.

Credit is allocated on market terms, and the State Bank has kept the monetary policy stable since November 2013 by keeping its policy interest rate at 10percent. Foreign-controlled **manufacturing**, **semi-manufacturing** (i.e. goods that require additional processing before marketing), and **non-manufacturing** concerns are allowed to borrow from the domestic banking system without regulated limits. The banks are required to ensure that total exposure to any domestic or foreign entity should not exceed 25percent of banks' equity. While there are no restrictions on private sector access to credit instruments, few alternative instruments are available beyond commercial bank lending. Pakistan's domestic corporate bond, commercial paper, and derivative markets remain in the early stages of development. According to the Investment Policy 2013, foreign investors in all sectors are allowed to access domestic borrowing subject to prevailing rules/ regulations of SECP and SBP and observance of debt-equity ratio. The Investment Policy 2013 extends the use of loans to any purpose. Previously it was limited to import plant and machinery.

The Karachi Stock Exchange (KSE) is a member of the Federation of Euro-Asian Stock Exchanges (FEAS) and the South Asian Federation of Exchanges (SAFE). It is also an affiliated member of the World Federation of Exchanges and the International Organization of Securities Commissions. Pakistan's stock markets performed very well in FY 2013, outperforming global stock markets including those of India, China, Hong Kong, Tokyo, the United States and UK. The stock market performance was driven by portfolio investment inflows, in addition to the better rates of return on Pakistani stocks. The KSE currently has 571 listed firms, but only five firms (three of which are state-owned enterprises) account for 38.4percent of market capitalization.

The GOP implemented a capital gains tax, effective July 1, 2010. The capital gains tax is applied at 10percent on stocks held for less than six months, and 7.5percent on stocks which are held for more than six months, but less than a year. A capital gains tax is not applied on holdings that exceed 12 months. The Capital Gains Tax Ordinance, promulgated on April 24, 2012, appointed the National Clearing Company of Pakistan Limited to compute, determine, collect and deposit the capital gains tax. Portfolio investments, capital gains, and dividends can be fully repatriated.

Recent capital market reforms include the introduction of minimum capital requirements for brokers, linking of exposure limits to net capital, strengthening of brokers' margin requirements, introduction of system audit regulations (mandating audit of 60percent of brokers), introduction of over the-counter (OTC) markets to facilitate registration of new companies with less paid-up capital, and introduction of a National Clearing and Settlement system. The SECP implemented a number of other regulations, including rules for clearing house regulations, margin trading regulations, proprietary trading regulations, and abolition of the group account facility. Capital markets' legal, regulatory and accounting systems are increasingly consistent with international norms.

Pakistan has adopted international accounting standards, with comprehensive disclosure requirements for companies and financial sector entities, and Pakistan adheres to the majority international accounting standards and international financial reporting standards. Pakistan Mercantile Exchange Limited, formerly known as the National Commodity Exchange, has been functioning since May 2007. Currently, the Mercantile Exchange deals in gold, silver, rice, sugar, cotton palm oil, and crude oil futures. The SBP, in its role as bank regulatory authority, has established a formal process of consultations with banks on draft regulations. Under Section 40 of the 1997 SECP Act, the SECP also publishes draft regulations to seek public comment prior to finalization.

The GOP enacted legislation providing a legal framework for friendly and hostile takeovers in 2002. The law provides that companies have to disclose any concentration of share ownership over 25percent. There are no laws or regulations that authorize private firms to adopt articles of incorporation that discriminate against foreign investment.

Per the Foreign Exchange Regulations, any foreign investor can invest in shares and securities listed on Stock Exchanges in Pakistan, and can repatriate profits, dividends, or disinvestment proceeds. The investor has to open a Special Convertible Rupee Account with any bank in Pakistan in order to make portfolio investments.

10. Competition from State-Owned Enterprises

The GOP's extensive 15-year privatization campaign came to an abrupt halt after 2006 when the Supreme Court reversed a proposed deal for the privatization of Pakistan Steel Mills, setting a precedent for future offerings. As a result, large and inefficient SOEs have retained monopolistic powers in a few key sectors, requiring the GOP to provide annual subsidies to cover SOEs' losses. Three of the largest SOE's are Pakistan Railways, Pakistan International Airlines, and Pakistan Steel Mills. Since the Sharif Administration took office in June 2013, it has restarted privatization efforts, pledged to privatize 31 state-owned companies, and hired transaction advisors for the first several transactions that are expected before the end of 2014.

Pakistan Railways (PR): PR is the only provider of rail services in Pakistan, and is also the largest public sector employer with close to 90,000 employees. Decades of corruption and mismanagement have caused PR's market share in total freight traffic to fall from more than 80percent in the 1970s, to less than 4percent today. Of PR's 500 locomotives, only 107 are reported to be in operation. The 2010 floods also caused extensive damage to Pakistan's rail network. PR posts a loss of $0.75 million per day. The company relies on government bailouts of $2.8 million a month to pay salaries and pensions. In the FY2014 budget, total government grant payments to PR are budgeted at $316 million. In 2012, Pakistan initiated three public-private partnerships to manage, improve, and develop its passenger service train service.

Pakistan International Airlines (PIA): PIA continues to struggle and is criticized for poor management, excessive staffing, inefficient operations, and a non-competitive market strategy. PIA's aging and fuel-inefficient fleet are suffering in the current competitive global environment. In contrast to PR, PIA is technically not operating as a monopoly, with Air Blue and Shaheen Air as popular, private sector alternatives. The Economic Coordination Committee of the Cabinet in a February 2013 meeting approved a financing plan for PIA including guarantees for repayment of $104 million loans during 2013, extension of GOP guarantees measuring $482 million and new guarantees against loans of $127 million, additional funding of $113 million and provision of $46 million for acquisition of narrow body aircraft on dry lease. PIA's current known debt is $1.5 billion. PIA's recently released 2014 first quarter results shows that it attained an operating profit of $17 million, versus against a loss of $57.4 million in the corresponding period last year. The Privatization Commission recently advertised for a financial advisor to take the lead in restructuring PIA prior to partial privatization of up to 26 percent.

Pakistan Steel Mills (PSM)**:** Established by the GOP as a cheaper option than importing steel, PSM has deteriorated into a money-losing enterprise that relies on a ban on steel imports to remain afloat. The proposed $360 million sale of a 75percent stake in PSM was halted by the Supreme Court in 2006 because of strong union and public opposition and a perception that the transaction undervalued PSM. . At present, the mill is operating at 11percent of its capacity and its current liabilities approximate $1.15 billion.

11. Corporate Social Responsibility

Awareness of corporate social responsibility among both producers and consumers in Pakistan is growing, and foreign and some local enterprises generally follow accepted CSR principles. Proctor and Gamble-Pakistan was the 2011 recipient of the Secretary of State's Award for Corporate Excellence (ACE) for demonstrating CSR in flood relief, support of education and orphans, implementation of science and technology standards, reduction of carbon dioxide emission at its facilities, and collaboration with universities to develop young business leaders.

12. Political Violence

The presence of several foreign and indigenous terrorist groups poses a potential danger to U.S. citizens throughout Pakistan. Across the country, terrorist attacks frequently occur against civilian, government, and foreign targets. Attacks have included armed assaults on heavily guarded sites, including Pakistani military installations. The Government of Pakistan maintains heightened **security** measures, particularly in the major cities. Threat reporting indicates terrorist groups continue to seek opportunities to attack locations where U.S. citizens and Westerners are known to congregate or visit. Terrorists and criminal groups regularly resort to kidnapping for ransom and extortion. Protests against the United States are not uncommon and have the potential to turn violent. Embassies of most western countries, including the United States, United Kingdom, Canada, Australia, and New Zealand Embassies have issued travel advisories recommending against non-essential travel to Pakistan. Consequently, western businesses operating in Pakistan will require extra security measures and should budget accordingly.

The Board of Investment, in coordination with Provincial Investment Promotion Agencies coordinates for "airport-to-airport" **security** for foreign investors. To avail this service, registered foreign investors or bona fide potential investors should make the request to the BOI with adequate notice and details of the itinerary. The service includes coordination with local police for escort and advice on making secure lodging and transportation arrangements.

13. Corruption

Corruption remains widespread in Pakistan, especially in the areas of government procurement, international contracts, and taxation. Giving and accepting bribes are criminal acts punishable by confiscation of property, imprisonment, recovery of ill-gotten gains, dismissal from governmental service, and reduction in governmental rank. In 2013, Pakistan ranked 127 in the Transparency International Corruption Perceptions Index.

Pakistani law provides for criminal penalties for official corruption; however, implementation of the law is ineffective, and officials frequently engage in corrupt practices with impunity. The National Accountability Bureau (NAB), organized under the 1999 National Accountability Ordinance, serves as the highest-level anti-corruption organization, with a mandate to eliminate corruption through awareness, prevention, and enforcement. Initially focusing its efforts on well-known politicians and government officials guilty of gross abuses of power and stealing public funds, the NAB refocused its strategy in 2002 after citizens and human rights groups accused the agency of being a political tool for the detention of former officials and party leaders, as well as serving as a means to deviate from the normal justice system. The NAB struggles with poor funding and limited staffing.

The Competition Commission of Pakistan seeks to prohibit corrupt activities, such as collusive practices, abuse of market dominance, and deceptive marketing. Despite dynamic leadership, active community engagement, and lower-level court decisions against businesses engaged in anticompetitive activities, the Competition Commission is hindered by insufficient government funding and slow progress of its cases in the judicial court of appeals. Corruption is pervasive in politics and government, and various politicians and public office holders have faced allegations of corruption, including bribery, extortion, cronyism, nepotism, patronage, graft, and embezzlement.

A 2007 National Reconciliation Ordinance (NRO), promulgated under former president Pervez Musharraf, provided an amnesty mechanism for public officials who were accused of corruption, embezzlement, money laundering, murder, and terrorism between January 1, 1986, and October 12, 1999. In December 2009, the Supreme Court declared the NRO null and void, and reopened all 8,000 cases against those who had received amnesty, including the president, ministers, and parliamentarians. The Supreme Court decisions about the beneficiaries of NRO are still pending implementation.

Corruption within the lower levels of the police and customs officials is common. Transparency International notes that the major cause of corruption was lack of accountability and enforcement of penalties, followed by lack of merit and low salaries. According to a survey, some police charge fees to register genuine complaints and accept money for registering false complaints. Bribes to avoid charges are commonplace. Critics charge that the appointment of station house officers (SHOs) is politicized.

Widespread allegations of corruption plagued the government’s rental power plant projects (RPP), which were a priority in 2008-2009 to address the country’s acute energy shortage. Citizens and parliamentarians accused government officials of providing financial kickbacks and awarding extravagantly priced rental power plants to their close acquaintances. In December 2010 and January 2011, the Supreme Court found two power companies guilty of receiving more than 970 million rupees (then $11.2 million) in advance payments to provide electricity but failing to commence commercial operations by the agreed date. The court ordered both companies to return the funds advanced, and the government abandoned the RPP power project as a policy priority. The Supreme Court of Pakistan gave a decision against RPPs on March 30, 2012 declaring their contracts null and void and their intentions as mala fide. Currently the National Accountability Bureau is investigating the RPP case.

Anecdotal reports persist about corruption in the district and sessions courts, including reports of small-scale facilitation payments requested by court staff. Lower-court judges lack the requisite independence and sometimes are pressured by superior court judges as to how to decide a case. Lower courts remain corrupt, inefficient, and subject to pressure from prominent wealthy, religious, and political figures. Government involvement in judicial appointments increases the government's control over the court system.

The 2002 Freedom of Information Ordinance allows any citizen access to public records held by a public body of the federal government, including ministries, departments, boards, councils, courts, and tribunals. It does not apply to government-owned corporations or provincial governments. The bodies must respond to requests for access within 21 days. Certain records are restricted from public access, including classified documents, those that would be harmful to a law enforcement case or an individual, or those that would cause grave and significant damage to the economy or the interests of the nation. NGOs criticized the ordinance for having too many exempt categories and for not encouraging proactive disclosure.

Pakistan is not a signatory to the OECD Convention on Combating Bribery, but it is a signatory to the Asian Development Bank/OECD Anti-Corruption Initiative. Pakistan has also ratified the UN Convention against corruption.

14. Bilateral Investment Agreements

Pakistan and the United States began negotiating a Bilateral Investment Treaty (BIT) in 2004. Those negotiations occurred intermittently since then, but are currently stalled. Pakistan has bilateral investment agreements with Australia, Azerbaijan, Mauritius, Bahrain, Bangladesh, Morocco, Belarus, Netherlands, Belgo-Luxemburg Economic Union, Oman, Philippines, Bosnia, Portugal, Bulgaria, Qatar, Cambodia, Romania, China, Singapore, Czech Republic, South Korea, Denmark, Spain, Egypt, Sri Lanka, France, Sweden, Germany, Switzerland, Indonesia, Syria, Iran, Tajikistan, Italy, Tunisia, Japan, Turkey, Kazakhstan, Turkmenistan, Kuwait, U.A.E, Kyrgyz Republic, United Kingdom, Lebanon, Uzbekistan, Laos and Yemen.

The United States and Pakistan have had a bilateral tax treaty in force since 1959. Pakistan also has double taxation agreements with Austria, Canada, Germany, Indonesia, Italy, Lebanon, Mauritius, Poland, Switzerland, Turkmenistan, Kazakhstan, the United Arab Emirates, Belgium, China, France, Greece, Iran, Japan, Libya, Saudi Arabia, Romania, Sweden, Belarus, Hungary, Jordan, Kenya, Kuwait, Malaysia, Netherlands, Nigeria, Norway, Oman, Philippines, Qatar, South Africa, Syria, Tunisia, Uzbekistan, the United Kingdom, Bangladesh, Denmark, Finland, India, Ireland, South Korea, Malta, Singapore, Sri Lanka, Thailand, Azerbaijan, and Turkey.

15. OPIC and Other Investment Insurance Programs

Overseas Private Investment Corporation (OPIC) insurance and financing are available for commercial transactions, and OPIC has an active portfolio of projects in Pakistan. Projects must meet OPIC eligibility guidelines.

16. Labor

The Pakistan civilian work force consists of approximately 60.5 million workers, but this estimate does not include the informal sector or child labor. The majority of the labor force works in the **agricultural** sector (45percent), followed by the **service**s sector (34.2percent), and **manufacturing** (13.8percent). Officially, the unemployment rate hovers around 6percent, but this is widely believed to be significantly understated, and a large number of the employed are underemployed. Pakistan is also an extensive exporter of labor, particularly to the Middle East.

Because of Pakistan's 18th Amendment which "devolved" certain federal power to the provinces, labor law is now under the jurisdiction of the provinces. Punjab's minimum wage is Rs. 9,000 per month ($91), and the other three provinces along with the Islamabad Capital Territory have a minimum wage of Rs. 8,000 per month ($81). Enforcement of labor laws was patchy at best under federal law, and the provinces are in an even weaker position to regulate the labor market. Inspections are almost non-existent, and the low-level labor courts are generally considered corrupt and strongly biased in favor of employers. Furthermore, labor protections do not extend to a majority of the labor force, most notably agricultural workers. Pakistan's compliance with ILO conventions is challenging in the wake of devolution. Multinational employers and exporters often have international certifications that demonstrate that they meet labor obligations, while local businesses often do not. The only significant area of U.S. investment in which workers' rights are legally restricted is the **petroleum sector**, which is subject to the Essential Services Maintenance Act. The Act bans strikes, limits workers' rights to change employment, and affords little recourse to a fired employee, but does allow collective bargaining. However, this Act seldom has been applied.

Criticism of Pakistan's confusing labor laws led to the creation in 2000 of a government commission to revise and consolidate Pakistan's labor legislation. The Industrial Relations Ordinance of 2002 was revised in 2008 and expired on April 30, 2010. The Industrial Relations Ordinance was again enacted by the President on July 18, 2011. Under the 18th Amendment, responsibility for labor regulation and enforcement, in addition to industrial relations, has been devolved to the provinces. All the provinces have enacted the Industrial Relations Acts. According to GOP estimates, union membership consists of approximately 5percent of the industrial labor force and 2percent of the total workforce. The GOP has ratified 34 ILO conventions relating to human rights, workers' rights, and working conditions. The GOP announced labor welfare measures three years back including extending Social Security eligibility to workers earning up to Rs. 10,000 ($101) a month, the establishment of a Complaint Cell to address workers complaints, allowing full wages to workers while on suspension, expanding the coverage of a GOP retirement benefits plan to establishments employing 5 or more workers, increasing marriage and death grants, and increasing workers' eligibility for company profit-sharing awards. This package is being implemented by the provinces. As part of its commitments to the EU under the Generalized System of Preferences (GSP) Plus preferential trade scheme, Pakistan has agreed to ratify and implement 27 core international conventions on human and labor rights, sustainable development, and good governance.

17. Foreign Trade Zones/Free Ports

The GOP established the first Export Processing Zone (EPZ) in Karachi in 1989, making special fiscal and institutional incentives available to encourage the establishment of exclusively export-oriented industries. The GOP subsequently established seven other EPZs in Risalpur, Gujranwala, Sialkot, Saindak, Gwadar, Reko Dek and Duddar. Of these, only Karachi, Risalpur, Sialkot and Saindak are operational. Principal GOP incentives for EPZ investors include an exemption from all taxes and duties on equipment, machinery, and materials (including components, spare parts, and packing material); indefinite loss carry-forward; and access to Export Processing Zone Authority One Window services, including facilitated issuance of import permits and export authorizations. The Export Processing Zone Authority (EPZA) is authorized to collect taxes totaling between 0.5-1.25percent of total profits when goods are exported, in addition to a 0.5percent development surcharge. There is otherwise an exemption from all federal, provincial, and municipal taxes for production dedicated to exports, and full repatriation of capital and profits for foreign investors is allowed. Investors eligible to establish businesses in EPZs have no minimum or maximum limits on investment. However, despite the substantial incentives offered, most of these zones have failed to attract significant investment. The GOP adopted Special Economic Zones (SEZ) legislation in 2012. The SEZ Law aims at creating industrial clusters with liberal incentives, infrastructure and investor facilitation services to reduce cost of doing business. The law allows private parties to establish these zones in addition to public/private partnerships used for the establishment of SEZs. The SEZs have yet to attract significant foreign investment, as many suffer from a lack of reliable gas, electricity and water supply.

The GOP offers incentives for other categories of export manufacturing. An Export-Oriented Unit (EOU) is a stand-alone industrial concern that exports 100percent of its production; it is allowed to operate anywhere in the country. EOU incentives include duty and tax exemptions for imported machinery and raw materials and duty-free import of two vehicles per project.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (*Millions U.S. Dollars)*	Fiscal Year 2013 (July-June)	237,000	2012	225,100	http://www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other

U.S. FDI in partner country (*Millions U.S. Dollars, stock positions)*	Fiscal Year 2013 (July-June)	319.1	2012	218	(BEA) click selections to reach. • Bureau of Economic Analysis • Balance of Payments and Direct Investment Position Data • U.S. Direct Investment Position Abroad on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
Host country's FDI in the United States (*Millions U.S. Dollars, stock positions)*	Fiscal Year 2013 (July-June)	92	2012	66	(BEA) click selections to reach • Balance of Payments and Direct Investment Position Data • Foreign Direct Investment Position in the United States on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
Total inbound stock of FDI as % host GDP	0.13%	Fiscal Year 2013 (July-June)	0.10%	2012	

- Source of Host Country: State Bank Of Pakistan http://sbp.org.pk/ecodata/index2.asp

TABLE 3: Sources and Destination of FDI

Pakistan 2012

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations ***(US Dollars, Millions)***					
Inward Direct Investment			**Outward Direct Investment**		
Total Inward	17,726	100%	Total Outward	1,279	100%
United Kingdom	4,572	26%	United Arab Emirates	253	20%
Switzerland	3,470	20%	United Kingdom	96	7%
United Arab Emirates	1,867	11%	Bangladesh	92	7%
United States	1,192	7%	Bahrain, Kingdom of	68	5%
Netherlands	763	4%	Oman	65	5%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: http://cdis.imf.org

TABLE 4: Sources of Portfolio Investment
Pakistan, End June 2013

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			**Equity Securities**			**Total Debt Securities**		
World	445	100%	World	155	100%	World	289	100%
Saudi Arabia	152	34%	Saudi Arabia	126	81%	United Arab Emirates	58	20%
United Arab Emirates	62	14%	Virgin Islands, British	12	8%	Qatar	30	10%
Qatar	30	7%	United Kingdom	9	6%	Saudi Arabia	27	9%
United Kingdom	21	5%	United Arab Emirates	4	2%	Japan	19	7%
Japan	19	4%	Cayman Islands	3	2%	Brazil	16	6%

Source: http://cpis.imf.org/

Summary - Sources for USG/International Statistics:

U.S. Bureau of Economic Analysis (http://www.bea.gov/international/index.htm) produces two types of direct investment statistics:

- International transactions & direct investment position statistics
- Activities of multinational enterprise statistics

Can be used to assess the effects of multinationals in local economies

http://www.treasury.gov/resource-center/data-chart-center/tic/Pages/index.aspx

- Treasury International Capital (TIC) System collects data on portfolio investment – companion data to direct investment, less than 10percent ownership.
- Data collected on banking, securities, and non-bank assets and liabilities.
- Country-level detail available.

http://cdis.imf.org/

- IMF compiles data on direct investment from and to individual countries.
- Publishes cross tabulations of data.
- Users can see at a glance multi-country direct investment data.
- Metadata, or methodology, also available.
- One stop shopping for direct investment position data

Less detailed than BEA – only total, equity, and debt position data available.

www.ec.europa.eu/eurostat

AMNE Statistics
Click “Statistics,” “Structural Business Statistics,” “Foreign-controlled Enterprises,” “Foreign Affiliates Statistics (FATS)”. For methodologies see “Recommendations Manual”
Direct Investment (part of Balance of Payments)
Click “Statistics,” “Balance of Payments,” “Main Tables,” “European Union Direct Investments”. Methodology also available

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