PAKISTAN

INVESTMENT CLIMATE STATEMENT

2015

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Executive Summary

Pakistan is located in South-Central Asia. 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 – lengthy settlement of disputes faced by investors, poor intellectual property rights enforcement, and inconsistent taxation policies – have led to a significant drop in Foreign Direct Investment (FDI) in recent years. Currently Pakistan is ranked 128 out of 189 countries in the World Bank's 2015 Report in the category of Ease of Doing Business.

The Pakistan Muslim League-Nawaz (PML-N) government was elected in May 2013 on pledges to turn around Pakistan's economy, enhance trade and investment, and bridge the energy shortage. In September 2013, the Government of Pakistan (GoP) and the International Monetary Fund (IMF) entered a three-year USD 6.8 billion Extended Fund Facility (EFF) arrangement, which includes a series of reform benchmarks. The government has implemented some macroeconomic and energy reforms, resumed dormant privatization efforts, and committed to sell government stakes in 31 companies identified by the IMF. In 2014, the government completed and auctioned a long-awaited 3G/4G wireless spectrum. Nonetheless, progress towards privatization has been slow overall.

The United States has consistently been one of the largest sources of foreign direct investment (FDI) in Pakistan and one of its most significant trading partners. The Karachi-based American Business Council (ABC), an affiliate of the U.S. Chamber of Commerce, has a membership of 64 U.S. companies, most of which are Fortune 500 companies, operating in Pakistan across a range of industries. The Lahore-based American Business Forum (ABF) also provides assistance to U.S. investors. American companies have profitable investments across a range of sectors, specifically in fast-moving consumer goods and financial services.

In 2003, the United States and Pakistan signed a Trade and Investment Framework Agreement (TIFA). TIFA Council meetings are held annually and the most recent one was in March 2015, in the city of Islamabad.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

The GoP welcomes foreign investments and offers incentives to attract new capital inflows. These incentives include tax exemptions, tariffs reductions, infrastructure, and investor facilitation services in designated special economic zones. Since 1997, Pakistan has established and maintained a largely open investment regime. The PML-N government introduced the Investment Policy 2013 that further liberalizes investment policies in most sectors. In addition to expressing concern about the deteriorating law and order situation, foreign investors continue to advocate for the Government of Pakistan to improve legal protections for foreign investments, protect intellectual property rights, and establish a clear and consistent policy of upholding contractual obligations and settlement of tax disputes.

Net inflows of FDI peaked at USD 5.4 billion in fiscal year 2008, before dropping by 73 percent over the following five years. Since the PML-N government took office in June 2013, the numbers have marginally improved. In FY2014, net FDI was USD 2.8 billion, up 5.4 percent from FY2013. (Note: Throughout the document, "fiscal year" or FY refers to the Pakistani fiscal year measured from July of the previous calendar year to June of the fiscal year marker. End Note.) The majority of FDI – USD 928 million – was in the information, communication and telecom sector (ICT) followed by USD 792 million in the upstream oil and gas sector. Analysts identified the deteriorating security environment, a chronic energy crisis, and macroeconomic instability as the biggest drivers of the overall decline in FDI. Pakistan remains a profitable market for the fast-moving consumer goods sector in which multinational corporations have a robust presence. In other sectors, such as pharmaceuticals, challenging pricing policies are said to be squeezing profit margins.

The current administration has been moderately successful in reversing the decline in FDI by attracting international investors through the Board of Investment (BOI). In the first nine months of FY 2015, net FDI inflows were USD 615.4 million, up four percent from the same period in FY 2014. 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 showing that more than 80 percent of its members were optimistic that the new government would improve the business climate.

Foreign investors in Pakistan report that the wide array of federal and provincial taxes and tax regulations are difficult to navigate. For example, as detailed in the 2015 World Bank "Ease of Doing Business" Report, obtaining construction permits in Karachi requires 11 procedures, takes an average of 222 days, and costs 190.4 percent of per capita income (over USD 2500 based on 2013 World Bank Gross National Income per capita). Tax assessment procedures often lack transparency, resulting in discrimination among taxpayers, inefficiency, and corruption. Attempts to reform the tax system date back to the 1980s but have failed to deliver significant results, except for an increase in indirect (i.e. sales) taxes. Pakistan has one of the lowest tax-to-Gross Domestic Product (GDP) ratios in the world, approximately 10.4 percent in 2013. The tax regime is discriminatory and poorly organized. Multinational corporations shoulder the largest portion of the tax burden. The Board of Investment (BOI) is no longer required to register investors, but investors must still register with the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Complicated procedures required by various government departments/agencies for setting up a business in Pakistan were simplified in 2007. This is a step in a right direction that may help Pakistan improve its ease of business.

Pakistan permits most-favored-nation (MFN) exemptions in the financial and telecommunication sectors. MFN serves as a tool for promoting joint ventures and reciprocity among ECO countries (Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, Afghanistan, Iran, Turkey and Pakistan). Islamic banks in Pakistan are subject to the same regulatory requirements as conventional banks.

Other Investment Policy Reviews

Pakistan improved its financial services commitments after signing the World Trade Organization (WTO) Financial Services Agreement in December 1997. Foreign entities have the right to establish banks. Foreign banks and financial brokerage houses take over the rights and obligations of the companies they acquire. Foreign banks are permitted to establish locally incorporated subsidiaries, provided they have the minimum global tier-one paid up capital of USD 5 billion or they belong to member countries that participate in the same regional organizations and associations as Pakistan (e.g., the Economic Cooperation Organization – ECO – and the South Asian Association for Regional Cooperation). Absent these requirements, foreign banks are limited to a maximum 49-percent equity stake in locally incorporated subsidiaries. Foreign and local banks must submit an annual branch expansion plan to the SBP for approval. The SBP approves branch openings depending on the bank's net worth, adequacy of capital structure, future earnings prospects, credit discipline, and the need of the local population. All banks are required to open 20 percent of their new branches in small cities, towns, and villages.

In 1989, the financial sector in Pakistan opened up to private investments (local and foreign) as a part of the GoP's policy of deregulation and privatization. SBP forbids 100 percent local ownership of new commercial banks, requiring foreign financial institution partner.

Laws/Regulations of Foreign Direct Investment

The GoP provides the same treatment and legal protection to foreign and domestic investments in all sectors except defense and broadcasting. The 1976 Foreign Private Investment Promotion and Protection Act, Economic Reforms Act, and Investment Plan deal with the rights of foreign investors. The Foreign Private Investment Promotion and Protection Act provides that foreign investments will not be subject to higher income tax levels than similar investments made by Pakistani citizens. While Pakistan's law and economic policy does not discriminate against foreign investments, execution of contracts can be problematic because of the inefficiency and lack of transparency in domestic courts.

Industrial Promotion

In FY2007, Pakistan eliminated some tariff exemptions for various manufacturing sub-sectors, specifically the value-added, priority, and high-tech industries. Currently, the manufacturing sector pays up to five percent customs duty on imported plants and machinery. In its FY2007 budget, the government eliminated sales tax on all types of plants 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 25 percent first-year depreciation for all fixed assets in this sector. The GoP also allows 25 percent of the cost of a plant and machinery to be counted as the first-year depreciation in infrastructure and social sectors.

The Companies Ordinance from 1984 regulates mergers and acquisitions. Mergers are allowed between international companies as well as between international and local companies.

Limits on Foreign Control

In the 2013 Investment Policy, the GoP eliminated minimum initial capital investment requirements for all sectors. There is no minimum requirement for the amount of foreign equity investment or upper limit on the share of foreign equity allowed, except in the airline, banking, agriculture and media sectors. Foreign investors in the services sector may retain 100 percent equity "for the life of the investment." Pakistan allows foreign companies in the services sector to repatriate 100 percent of profits. To start a cellular operation network, investors need to obtain licenses from the Pakistan Telecommunication Authority. In the social and infrastructure sectors, 100 percent foreign ownership is allowed. In the agricultural sector, 60 percent foreign ownership is allowed. Corporate farming is permitted, though only companies incorporated in Pakistan can own farmland. There are no limits on the size of corporate farmland holdings, which foreign companies can lease for up to 50 years, with renewal options. The raw materials, plants, and machinery for agricultural and agro-based industries can be imported without customs duty. The tourism, housing, construction, and information technology sectors have been granted "industry status," which makes them eligible for lower tax and utility rates than businesses categorized as "commercial sector" such as banks and insurance companies. Only Pakistanis can invest in small-scale mining valued at less than Rs. 300 million (about USD 3 million).

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Privatization Program

From 2002-2007, Pakistan attracted significant foreign investment through the privatization of state-owned enterprises (SOEs) in the financial services and telecommunications sectors, though privatization stalled from 2008- 2013. Pakistan's EFF agreement with the IMF identifies 31 SOEs for entire or partial privatization beginning with the sale of government stakes in high-performing, publicly-traded firms via capital markets transactions. Privatization of the largest and most money-losing state-owned firms, such as Pakistan Railways, Pakistan International Airlines (PIA), and Pakistan Steel, will require significant restructuring prior to privatization and is likely to face substantial political resistance. Foreign and local investors are permitted to bid on SOEs and financial institutions on equal terms. The government can only investigate a privatization deal up to one year after it is finalized.

Screening of FDI

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.

Competition Law

The Competition Commission of Pakistan (CCP) is responsible for regulating the anti-competitive and monopolistic practices of both private and public sector organizations. In June 2007, the Pakistani Cabinet approved competition ordinances, drafted with technical assistance from the World Bank. These ordinances 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 2010 Competition Commission Act codified the mandate of the CCP into law and revised the appeals process to include an appellate tribunal in Islamabad tasked with issuing decisions within six months. The law also reduced the fine for offenders from 15 percent to 10 percent of turnover and authorized the CCP to collect three percent of the earnings of other major regulatory agencies to supplement their budget. CCP issued 65 orders against monopolistic and anti-competitive practices from April 2008 to November 2013.

Investment Trends

A majority of the incoming FDI was directed towards the ICT sector, specifically with the auction of 3G/4G spectrum earlier in 2104. This was followed by FDI in the energy, oil & gas exploration, financial services and food industries respectively.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	126 of 177	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	128 of 142	doingbusiness.org/rankings
Global Innovation Index	2014	129 of 142	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD 1,360	data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Foreign Exchange

SBP maintains strict controls over the exchange rate and monitors foreign exchange transactions in the open market. However, banks are required to report and justify outflows of foreign currency. Travelers leaving or entering Pakistan are allowed to physically carry a maximum of USD 10,000 in cash. There are no restrictions on payments of royalties and technical fees for the manufacturing sector. However, there are restrictions on other sectors, including a USD 100,000 limit on initial franchise investments and a cap on subsequent royalty payments to five percent of net sales for five years. Royalties and technical payments are subject to a 15-percent income tax.

To facilitate commercial banks, in 2002 SBP allowed cross-border payments of interests, profits, dividends, and royalties, without submitting prior notification. However, banks still have to report loan information, which allows the SBP to verify remittances against repayment schedules.

In 2004, the SBP made it mandatory for all foreign currency exchange businesses to register, making them subject to SBP audits. This subjected the foreign exchange market to more stringent regulations, including higher minimum capital requirements and closer monitoring. Exchange companies are permitted to buy and sell foreign currencies for individuals, banks, and other exchange companies. Additionally, they can sell foreign currencies to incorporated companies to facilitate the remittance of royalty, franchise, and technical fees. In recent years, there has been an increase in overseas worker remittances sent through these companies.

Remittance Policies

The GoP reports that it allows remittance of full capital, profits, and dividends, though for transactions over USD 5 million, though Economic Coordination Committee approval is often required. Dividends are tax-exempt.

There are no limits on dividends, remittance of profits, debt service, capital, capital gains, returns on intellectual property, or payment for imported equipment in Pakistani law, though for selected transactions that could impact Pakistan’s Foreign Exchange reserves prior Economic Coordination Committee approval is required. However, banks are required to report and justify outflows of foreign currency and investor remittances can only be made against a valid contract or agreement registered with the SBP within 30 days of execution.

In recent years, there has been an increase in overseas worker remittances sent through these companies. SBP, the Ministry of Overseas Pakistanis, and the Ministry of Finance created the Pakistan Remittance Initiative in 2009 to facilitate faster, cheaper, and more efficient flow of remittances. Per Section 114.4 of the 2001 Income Tax Ordinance of Pakistan, the GoP exempted taxes on any amount of foreign currency remitted from outside Pakistan through normal banking channels and converted into rupees.

The 1976 Foreign Private Investment Promotion and Protection Act guarantees remittance of profits earned through sale and appreciation in value of property.

3. Expropriation and Compensation

The 1992 Furtherance and Protection of Economic Reforms Act protect FDI in Pakistan from expropriation by the 1976 Foreign Private Investment Promotion and Protection Act. The Investment Policy 2013 reinforces GoP commitment regarding the security and safety of FDI.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Pakistan’s legal system is based on British common law and is strongly influenced by Islamic Sharia Law. The application of Islamic Sharia Law remains primarily confined to the areas of domestic or personal matters. There are two classes of courts; the superior or high courts and the lower or subordinate courts. The superior judiciary is composed of the Supreme Court, the Federal Shariat Court and five High Courts. The Supreme Court holds the highest jurisdiction. Neither the Supreme Court not a High Court may exercise jurisdiction in relation to Tribal Areas, except in the cases where this is clearly stipulated. The lower courts are composed of civil and criminal district courts, and various specialized courts specifically covering areas such as; banking, customs & excise, smuggling, drug trafficking, terrorism, tax law, environmental law, consumer protection, insurance and corruption. The government also has the authority to set up administrative courts, over which they exercise exclusive jurisdiction. Each province has a high court, which hears appeals from district courts in civil cases and session courts in criminal cases. It is common for the one judge to preside over the district and session courts. The Supreme Court has jurisdiction over the provincial high courts, referrals from the federal government, and cases involving disputes among provinces or between a province and the federal government. Special courts and tribunals deal with taxation, banking, and labor.

Bankruptcy

Pakistan does not have a bankruptcy law, and court-appointed liquidators who auction the property of a bankrupt company organize the bankruptcy process. This process can take years to complete.

With regards to companies, 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.

Investment Disputes

One of the main reasons for a decline in the foreign direct investment (FDI) is the difficulties faced by investors related to timely settlement of their investment disputes. Pakistan is a member of the International Center for the Settlement of Investment Disputes (ICSID). However, foreign investors are still concerned about how the arbitration cases are resolved in Pakistan.

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

International Arbitration

Even though, the Pakistan Arbitration Act of 1940 provides guidance for arbitration in commercial disputes; Commercial cases in the courts typically take years to resolve, and most foreign investors typically write into their contracts the right to international arbitration.

For example, in1998 a U.S. multinational filed a lawsuit against its Pakistani partner. Despite a favorable ruling by the International Chamber of Commerce (ICC) Arbitral Panel in 2000 and subsequent rulings by the Lahore Civil and High Courts upholding the ICC verdict, the local partner dragged the case on in Pakistani courts until finally withdrawing its appeal in 2009.

ICSID Convention and New York Convention

Pakistan is a member state to the International Centre for the Settlement of Investment Disputes (ICSID Convention). In 2005, Pakistan ratified the convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention).

Duration of Dispute Resolution

There is no specific duration for dispute resolutions. Dispute resolutions can take decades to resolve.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Pakistan has been a World Trade Organization (WTO) member since 1 January 1995 and a GATT member since 1948. Pakistan provides most favored nation (MFN) treatment to all member states with the exception of India and Israel. Since 2012, imports from India are conducted on the basis of a negative list. There are about 1,200 products that cannot be imported from India. Pakistan does not conduct any trade with Israel.

During the period under review, Pakistan has been a respondent in one dispute settlement case initiated by Indonesia, concerning anti-dumping and countervailing duties imposed by Pakistan on certain paper products from Indonesia. In 2014, Pakistan also notified the WTO of a request for consultations with the European Union regarding the imposition of countervailing measures by the EU on imports of certain polyethylene terephthalate (PET) from Pakistan.

Pakistan considers the multilateral trading system to be the cornerstone of its trade policy. It also believes that preferential trade agreements (PTAs) are complementary to the multilateral trading system. Pakistan is a signatory to the South Asia Free Trade Agreement. It also has bilateral free-trade agreements with China, Indonesia, Iran, Malaysia, Mauritius and Sri Lanka.

Investment Incentives

The GoP investment policy provides domestic and foreign investors with the same incentives, concessions, and facilities for industrial development. Though some incentives are included in the federal budget, Special Regulatory Order (SRO) issued by the Federal Board of Revenue (FBR) promulgates most tax incentives. For example, the sales taxes on industrial machinery and customs duties on imported agricultural machinery have been abolished. Additionally, export-oriented industries have been granted customs duty exemptions on the import and purchase of raw materials. Custom duties for machinery imported by the manufacturing and social service sectors are under five percent.

The FY 2014 budget retained all these incentives. In 2011, the GoP imposed sales taxes ranging from four to six percent on unregistered companies working in the supply chain of export-oriented sectors, including textiles, surgical, sports, leather, and carpets. Registered companies within the supply chain of these sectors remain exempt from sales tax. Retailers in the same export-oriented sectors are subject to a four percent sales tax irrespective of registration.

Separately, in 2014 FBR issued a new SRO imposing a 17 percent sales tax on imported finished textile and leather goods while keeping the sales tax on similar locally produced products at five percent. FBR has stated that they intend to equalize the tax rates but have not provided a timeline. The vast majority of import tariffs (nearly 94 percent) are under 30 percent of the value of the good. Vehicle imports attract the highest duties. The GoP reduced customs duties on 88 raw materials for the pharmaceutical industry from 10 percent to 5 percent. As part of the IMF program, Pakistan has pledged to further reduce the number of tariff slabs (previously reduced from eight to seven) for the pharmaceutical industry.

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

Research and Development

In Pakistan, there are no provisions for research and development initiatives. However, hi-tech industries, which include power tools, information technology and solar energy utilization, benefit from a wide range of fiscal incentives that are mentioned above.

Performance Requirements

Pakistan does not have a mandate for performance requirements of foreign entities operating in the country. There is no requirement to hire locals at any grade or their representation on the company's board of directors in the country.

U.S. businesspeople are granted multiple entry visas valid for five years with a 90-day stay. To obtain a visa, the US citizen is required to present a recommendation letter from a US chamber of commerce coupled with an invitation letter from a business endorsed by a Pakistani chamber of commerce, or a recommendation letter from a Pakistani foreign commercial attaché. Technical and managerial personnel working in sectors that are open to foreign investments are not required to obtain special work permits. Sectors that are open to foreign investments include the manufacturing, infrastructure, agricultural, services, health, and education sectors. Work visas for technical and managerial personnel are granted for one year and can be extended on a yearly basis.

Data Storage

Foreign investors are allowed to sign technical agreements with local investors without disclosing proprietary information. According to the 2013 Investment Policy, industrial units (manufacturers) that are bringing new technology to Pakistan receive the same incentives available in Special Economic Zones (SEZs). The 2007-2008 Trade Policy provides the same incentives as the export-processing zone (EPZ). Existing enterprises that export at least 80 percent of their production are eligible for incentives under this program, but enterprises formed after the passage of the policy are required to export 100 percent of their product 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 25 percent first-year depreciation allowance for industrial 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 25 percent of the cost of plant machinery and equipment is available to encourage expansion and modernization.

6. Right to Private Ownership and Establishment

Foreign and domestic investors are free to establish and own businesses in all sectors except the following: arms and munitions manufacturing, high explosives manufacturing, currency/mint operations, non-industrial alcohol manufacturing, and radioactive substance manufacturing. In retail food sales, the GoP influences pricing of essential foodstuffs (such as flour, rice, and lentils) through its several hundred Utility Stores (state-owned grocery stores that provide subsidized essential food items). Market leaders in the cement and sugar industries allegedly operate cartels. Investments in the energy sector, particularly conventional gas, are obstructed by a policy that sets unrealistically low prices for resources.

Additionally, there is continuous disagreement between the federal and provincial governments regarding the ownership of natural resources. Though the 2012 Petroleum Policy increased the wellhead price for natural gas to USD 6 per million British thermal units in order to increase exploration and attract new investors, it has not been fully implemented.

7. Protection of Property Rights

Real Property

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 government use of eminent domain without sufficient compensation, even in the public interest, in accordance with provisions of the law. The order protects both local and foreign investments. The 1976 Foreign Private Investment Promotion and Protection Act guarantees remittance of profits earned through the sale or appreciation in value of property.

Intellectual Property Rights

Pakistan remained on the US Trade Representative's Priority Watch List in the 2014 Special 301 review, and will likely remain on the list in 2015. The report cites weak protection and enforcement of intellectual property rights (IPR), particularly with respect to copyrights, pharmaceutical data, and media piracy. Pakistan did not take any significant steps to improve copyright enforcement, particularly involving the pirating of books and optical discs in 2014. A very small proportion of piracy-related arrests resulted in prosecutions that carried minor sentences. To address this, Pakistan should take steps to fully implement the 2012 Intellectual Property Organization of Pakistan Act (IPO Act), particularly by establishing specialized IP Tribunals and an operational Policy Board, which met for the first time in February 2015. The

GOP has identified intellectual property protection as a key area for its "second generation" economic reforms, though it has taken few concrete steps to address it.

Pakistan has enacted five major laws relating to patents, copyrights, trademarks, industrial designs, and layout designs for integrated circuits, but inherent flaws in the legislation along with weak enforcement have limited the impact of these laws. Each of these laws would benefit from revision.

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, the FBR recently established an IPR Directorate to improve enforcement capacity.

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 TRIPS obligations, the Pakistani President created the Intellectual Property Organization (IPO). The 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 that were previously handled by offices in 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 2012 Intellectual Property Organization law provides for specialized IPR tribunals to adjudicate cases and a policy board with private sector representation to assess policy decisions. The GoP has made little progress in implementing the provisions of the law. Though the GoP recently approved and publicized the establishment of IPR tribunals, the government has not appointed judges to make the tribunals operational. Pakistan has made some progress in combating large-scale illegal optical disc production and retail sales of pirated and counterfeit products. Further action is required to combat book piracy, aggressively prosecute IPR crime, and ensure that courts issue deterrent-level sentences for IPR infringers.

Pakistan's existing regulatory structure provides virtually no IPR for seeds or plant biotechnology. Pakistan produces biotech cotton, but the technology was smuggled into the country in 2002 and spread through informal multiplication. The government officially approved a number of biotech varieties in 2010, but given the absence of patent protection, the technology, while dated, has been in the public domain for over a decade. Most major US and international seed companies have operations in Pakistan that import and sell traditional hybrids. However, none have plans to introduce biotechnology or large-scale seed production until the regulatory structure improves. Pakistan's biotechnology regulatory system has been in disarray since the devolution of key federal powers to the provinces in 2010. Currently, the Lahore High Court is reviewing a case that considers whether the federal or provincial governments are in charge of plant biotechnology regulation. Meanwhile, the federal government's draft Biosafety Ordinance, which would formally reestablish the federal regulatory structure, is currently under review at the Law Ministry. Two other key pieces of legislation have been in various stages of the approval process for years. Amendments to the 1976 Act would broaden private sector participation in the industry and strengthen enforcement without conferring IPR. The National Assembly recently approved the draft legislation and sent it to the Senate for a vote. Pakistan's 2000 Patents Ordinance excludes plants. Among current legislation, the Plant Breeders' Rights Act has been the most thorough in establishing IPR in the short-term by enabling firms to register their varieties with the IPO, though enforcement will likely be a persistent concern.

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 2004, Pakistan acceded to the Paris Convention for the Protection of Industrial Property. Pakistan has not yet ratified the WIPO Copyright Treaty or the WIPO Performance and Phonograms Treaty.
Patents

Pakistan enacted the Patent Law in 2000 in accordance with its WTO obligations. Under this law, the owners of patent and licensees can file suit against violators. However, a Patent Ordinance passed 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. The ordinance generated great concern among US pharmaceutical firms seeking to sell their products 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 tests 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 further frustrated the pharmaceutical industry, as many companies had 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 announced 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. The GOP has eliminated the requirement that pharmaceutical firms label the generic name with equal prominence to that of the brand name on all products. Trademark infringements remain 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 a memorandum of understanding with the IPO regarding authority over such cases.

Copyrights

Pakistan's market for printed reading materials remains dominated by pirated products, although print piracy is increasingly giving way to pirate photocopying. Informal markets in Karachi and Lahore, once major sources of pirated printed materials, were raided in 2013, although book piracy has continued to spread. Pirates now make illegal photocopies from one master copy legitimately purchased online or overseas. The illegal photocopying of title covers has taken on a new dimension: pirates now obscure the author's names, publisher's names, logos, ISBN numbers, etc, to prevent tracking. Print piracy also consists of smuggled books from Iran and Afghanistan by land, Saudi Arabia by air, and overruns by legitimate printers in Pakistan. Unauthorized India-only reprints are also being imported into Pakistan. A wide range of books are pirated, from English language novels to fiction and non-fiction. Sellers of pirated print materials are highly organized and well-connected. They 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 prosecution. 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 use compulsory licenses to copy books, and this is contrary to Pakistan's international obligations under the Berne Convention. According to the International Property Alliance, publishers operating in Pakistan reported an increase in enforcement activity and claimed that piracy levels were proportionately similar to Bangladesh, Iran, and Sri Lanka. Pakistani authorities, especially the Federal Investigations Agency (FIA) in Islamabad, have taken some actions against sellers of pirated printed materials 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 2014, especially with respect to optical disc piracy. The vast majority of software piracy-related arrests failed to result in prosecution, and the few that were prosecuted were given 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.

The Pakistan Federal Investigation Agency (FIA) continues to conduct occasional raids. However, most of the time, a higher court postpones hearings until the FIA investigation team provides sufficient evidence. Media reports indicate that Pakistan is a transit route for counterfeit products originating in Russia, Malaysia, Singapore, China, Bangladesh, and Sri Lanka for onward distribution to other countries. Since 2008, vendors have shifted production of pirated optical software to residential locations, making it difficult for authorities to investigate.

Weak enforcement has allowed the sale of pirated CDs, books, movies, and software to grow in most local markets in Pakistan.

Internet use continues to rise in Pakistan, and, with it, online piracy. Publishers report that reference books, online journals, and trade books are being illegally digitized and provided by schools. Thus far, no steps have been taken to address increasing online piracy or illegal digitization. Pakistan has thousands of local small-scale cable television operators nationwide. Even though the Pakistan Electronic Media Regulation Authority (PEMRA) has prohibited pirated content on television, cable operators frequently broadcast pirated content, because of weak enforcement from FIA.

The Industrial Designs Law allows the registration of designs for a period of ten years, with extension for up to twenty years. The Law for Layout Designs of Integrated Circuits provides 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/."

Resources for Rights Holders

Contact at Mission:

-Mark Miller
- Economic Officer
-+92-51-208-0000
-MillerGM@state.gov

List of local lawyers: http://islamabad.usembassy.gov/cs_legalinfo.html

8. Transparency of the Regulatory System

A number of government agencies, including SECP, BOI, and SBP, oversee the commercial and financial regulatory system. Under the 1984 Companies Ordinance, all companies are required to register with SECP. Additionally, the SECP regulates the securities market through its Securities Market Division. The SECP and the national stock exchanges collaborate to streamline procedures to register and list securities. The 1971 Securities and Exchange Rules regulate by the 1969 Securities and Exchange Ordinance and equity markets. The Companies Ordinance provides a guideline for the closure of a company, while the Banking 1962 Companies Ordinance provides the procedure for closing of a bank. SECP and SBP have simplified the process for filing for bankruptcy and liquidation.

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 FBR issues SROs, which are used to reduce or enhance duties, in order to give special relief to certain sectors. The FBR does not solicit public input on SROs.

As mentioned earlier, the Competition Commission of Pakistan (CCP) is responsible for regulating the anti-competitive and monopolistic practices of both private and public sector organizations. The Pakistani Cabinet approved a competition ordinance, drafted with technical assistance from the World Bank, in June 2007. This ordinance 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 2010 Competition Commission Act codified the mandate of the CCP into law and revised the appeals process to include an appellate tribunal in Islamabad tasked with issuing decisions within six months. The law also reduced the fine for offenders from 15 percent to 10 percent of turnover and authorized the CCP to collect three percent of the earnings of other major regulatory agencies to supplement their budget. CCP issued 65 orders against monopolistic and anti-competitive practices from April 2008 to 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 for domestic and foreign investors. The SBP and SECP continue to expand their regulation and oversight of financial and capital markets. The top five banks (of which only one is state owned) control 52.6 percent of all banking sector assets. In 2014, banking sector assets totaled USD 180 billion. As of December 2014, net non-performing bank loans (NPLs) totaled approximately USD 1.2 billion, almost three percent of net total loans.

Interest rates are dependent on the reverse repo rate (the policy rate). The SBP consistently lowered the policy interest rate from a high of 10 percent at the last quarter of 2014 to eight percent at the close of the first quarter of 2015 and expects to continue lowering the rate. Foreign entities are allowed to borrow from the domestic banks without limits. Banks are required to ensure that total debt exposure to any domestic or foreign entity does not exceed 25 percent of the bank’s equity. The private sector predominantly accesses credit from commercial banks, which are rebalancing their assets to include more government securities holdings. Pakistan’s domestic corporate bonds, commercial papers, and derivative markets remain in the early stages of development. According to the 2013 Investment Policy, foreign investors in all sectors are allowed domestic credit lines subject to prevailing the rules and regulations of the SECP and SBP, and observance of the required debt-to-equity ratio. The policy extends the use of loans, previously limited to import of industrial plant machinery, to any purpose.

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). The KSE is also an affiliated member of the World Federation of Exchanges and the International Organization of Securities Commissions. In FY2014, Pakistan's stock markets outperformed global stock markets including those of India, China, Hong Kong, Tokyo, the U.S. 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 581 listed firms with a market capitalization of USD 7.5 billion.

In 2010, the GoP implemented a capital gains tax of 10 percent on stocks held for less than six months and almost 8 percent on stocks held for more than six months but less than a year. No capital gains tax is applied on holdings that exceed 12 months. The 2012 Capital Gains Tax Ordinance 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 60 percent 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 on clearing houses, margin trading, proprietary trading, and abolition of the group account facility. Capital market legal, regulatory, and accounting systems are 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 of international accounting and financial reporting standards.

Money and Banking System, Hostile Takeovers

The size of the banking sector has grown steadily with better financial health. To further enhance the assessment of the health and soundness of the financial sector, the SBP continues to work on developing a preliminary "encouraged" set of financial soundness indicators (FSIs). The legislative and regulatory framework is largely compliant with Basel core principles of banking supervision, international standards of Anti-Money-Laundering and Combating the Financing of Terrorism (AML/CFT) and Basel III for capital adequacy.

Pakistan's monetary policy has undergone significant changes in tandem with the changing economic landscape. During 2013-2014, monetary expansion decreased to 12.5 percent from 15.9 percent in 2012-2013. This decrease was principally due to lower government borrowings from the banking system.

The SECP regulates the insurance industry, and while the SBP oversees the banking sector. The GOP opened the insurance industry for foreign investors as a part of its financial sector reforms i. In 2007.Under these reforms, the GOP government allowed 100 percent percent foreign equity in the insurance business. Foreign investors in the insurance sector are required to subject to the condition that foreign investors are required to bring a minimum paid up capital of USD 5.3 million in life insurance and USD 3.1 million in non-life/general insurance.

SBP requires that foreign banks have at least USD 300 million in capital reserves at their flagship location in Pakistan and a minimum of 8 percent capital adequacy ratio in order to operate in Pakistan and to open branches. In addition, foreign banks are required to maintain the following minimum capital requirements which vary based on the number of branches they are operating:

- 1 to 5 branches - Required to maintain USD 28 million in assigned capital,
- 6 to 50 branches - Required to maintain USD 56 million in assigned capital,
- Over 50 branches - Required to maintain USD 94 million in assigned capital.

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 25 percent. 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 16-year privatization campaign came to a halt in 2006 when the Supreme Court reversed the privatization of Pakistan Steel Mills, setting a precedent for future offerings. Large and inefficient SOEs have retained a monopoly in a few key sectors, and the GoP provides annual subsidies to cover SOEs' losses. Three of the largest SOEs 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 2015.

Pakistan Railways (PR): PR is the only provider of rail services in Pakistan and the largest public sector employer with close to 90,000 employees. Decades of corruption and mismanagement have caused PR's market share in freight traffic to fall by over 76 percent since 1970. Of PR's 500 locomotives, only 206 were operational in 2014. The company relies on government bailouts of USD 2.8 million a month to pay salaries and pensions. In the FY2014 budget, total government grant payments to PR are budgeted at USD 395 million. In 2014, Pakistan initiated the public-private partnership policy (which was deferred since 2012), the private sector would be offered commercial management and passenger facilitation of 14 express, four passenger, one rail car each for mail, mixed, and shuttle trains.

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 is suffering in the current competitive global environment. In contrast to PR, PIA is technically not operating as a monopoly. It faces domestic private sector competition from Air Blue and Shaheen Air and very strong competition from Gulf carriers and other regional airlines on international routes. In a February 2013 meeting, the

Cabinet Economic Coordination Committee approved a financing plan for PIA including guarantees for the repayment of USD 104 million in loans in 2013 alone, extension of GoP guarantees measuring USD 482 million and new guarantees against loans of USD 127 million, additional funding of USD 113 million and provision of USD 46 million for the acquisition of narrow-body aircrafts on dry lease. PIA's current debt is USD 28.8 billion. The first quarter results of FY 2015 show that PIA has attained an operating profit of USD 17 million, versus a loss of USD 57.4 million in the same period last year. One of the conditions of the IMF EFF arrangement is to privatize up to 26 percent of PIA. The Privatization Commission has begun this process by hiring a financial advisory firm that has decided to sell PIA shareholdings in the petroleum and banking sectors; however, political resistance is strong, and the effort has stalled.

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. In 2006, the Supreme Court halted the proposed USD 360 million sale of a 75 percent stake in PSM after facing opposition from a strong workers' union and the general public. There was also concern that the transaction undervalued PSM. At present, as a result of a government-backed financial restructuring package worth USD 185 million in the first quarter of 2014, the mill is operating at 30 percent of its capacity as compared to three percent during the same period last year. PSM's current debts and liabilities are worth USD 710 million.

OECD Guidelines on Corporate Governance of SOEs

State-owned enterprises (SOEs) continue to have an important role in Pakistan's economy. State involvement occurs mainly in manufacturing (e.g. fertilizers, steel and engineering goods), energy (oil, gas, and electricity) and key services (e.g. banking, insurance and transportation). In Pakistan, SOEs represent one third of the total stock market capitalization. However, Pakistani SOEs do not follow OECD guidelines for their corporate governance. In 2010, Pakistan initiated the process of issuing an SOE Code, however with the change of government in 2013 and the conditionalities – including the privatization of key SOEs – of the IMF program, there has been no progress since then.

Even though SOEs operate with their own budget they are still governed by various ministries. For examples, Pakistan Steel Mills is governed by the Ministry of Industries and Production, whereas the Ministry of Railways governs Pakistan Railways.

In March 2007 the Government of Pakistan clarified the Powers of the Governing Boards of Companies Established under the Companies Ordinance 1984 as follows:

i. Government established/owned companies under the Companies Ordinance may use full powers to the extent given in the Companies Ordinance provided their decisions do not impact the Federal Budget in any way.

ii. In case of organizations, established under specific enactments (other than Companies Ordinance) the BOD will act according to their respective laws. However, in such cases, the agenda for the meeting of BOD may be circulated well ahead of time so that finance division representatives on the boards may consult and get orders of the appropriate authorities and act accordingly in the meeting of BOD.

iii. Separation of Chairman and CEO functions/officers – some SOEs have separated the offices/functions of Chairman of the Board and the CEO (e.g. Pakistan State Oil, Pakistan International Airlines, Oil & Gas Development Corporation, Pakistan Petroleum Limited etc).

iv. The role of Independent Non-Executive Directors – Some SOEs have sufficient number of Independent Non-executive Directors on their Boards and Board committees' e.g. State Life Insurance Corporation, Civil Aviation Authority, Employees Old Age Benefit Institution.

However, the above initiatives are proposed to be reinforced through the issuance of the SOE Regulations i.e. the SECP, the premier regulator of corporate bodies, framed the Draft Public Sector Companies (Corporate Governance) Regulation in November 2007. The Pakistan Institute of Corporate Governance vetted the draft in December 2007 and proposed appropriate amendments. The proposals were also peer reviewed by the International Finance Corporation. The final proposals/comments were sent to the Commission in December 2007.

Sovereign Wealth Funds

In Pakistan, there is no specific exemption for foreign sovereign wealth funds (SWFs) under the current domestic tax law. Foreign SWFs are taxed like any other non-resident person under domestic tax law unless specific concessions have been granted under an applicable tax treaty to which Pakistan is a signatory.

Under domestic tax law, the taxation of non-residents with respect to Pakistan source income depends on the nature of the income. Dividends are subject to Withholding Tax (WHT) at 10 percent of the gross amount. The final tax cannot exceed 10 percent WHT on dividends declared or distributed by companies engaged in power generation or purchasers of power projects is 7.5 percent and the final tax cannot exceed 7.5 percent.

Interest income is subject to WHT at the following rates:

- 0 percent on interest paid to foreign corporations, if the security, arrangement, loan is approved by the Federal Government depending on the nature of exemption sought (see below); and,

- 10 percent in all other cases if the lender has no permanent establishment (PE) in Pakistan.

The following interest payments are tax exempt:

- Interest received by a non-resident person on security approved by the FBR and issued by a resident person, if both persons (resident and non-resident) are not associates; the security was widely issued outside Pakistan by the resident person for use in business carried on by the resident person in Pakistan; and profit is paid outside Pakistan.

- Interest on Government securities is exempt from tax under certain income tax treaties.

- Interest payable to a non-resident on a private loan utilized on a project in Pakistan. The approval of the Federal Government is required in this case as regards the loan amount, nature of loan, rate of profit, terms of repayment and nature of the project.

- Interest on moneys borrowed under a loan agreement or in respect of foreign currency instrument approved by Federal Government.

- Any profit on debt derived from foreign currency accounts held with authorized banks or certificate of investment issued by investment banks in accordance with Foreign Currency Accounts Scheme introduced by SBP, by a foreign association of persons, companies registered and operating abroad and foreign nationals residing in Pakistan.

Foreign SWFs may also be exempt from Pakistan taxation on interest income under some income tax treaties to which Pakistan is a party.

11. Corporate Social Responsibility

There is an increase in awareness of corporate social responsibility among producers and consumers in Pakistan. Foreign and some local enterprises follow the accepted CSR principles and promote their messages through various media platforms. However, one major consequence is that CSR is frequently equated with corporate philanthropy/charity, especially in the case of local corporations. Some consider CSR to be simple compliance with the law. This creates a difficulty because top management in many cases is still uncertain about the true meaning of CSR. The state of CSR in Pakistan is, therefore still in its infancy. Some indigenous companies have also developed written CSR policies, but the majority, unfortunately, are 'either unaware of the benefits brought by CSR or they feel that even if they do not adopt such policies, there are not in any state of danger.

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.

OECD Guidelines for Multinational Enterprises

There are no specific OECD guidelines that the Pakistani government encourages foreign and local enterprises to follow.

However, in March 2014 the European Parliament, through a resolution on Pakistan’s regional role and political relations with the EU, invited the Pakistani authorities to sign up to the ILO/IFC-led Better Work Programme and called on all those responsible for the 2012 factory fire that killed over 250 workers at the Ali Enterprises garment factory to finally pay compensation to the survivors of the fire.

12. Political Violence

The presence of several foreign and local terrorist groups throughout Pakistan poses a serious danger to U.S. citizens. There are frequent terrorist attacks across the country against civilians, government, and foreign personnel and organizations. There have also been frequent attacks on Pakistani military establishments across the country. Major Pakistani cities are frequently on high-security alert with paramilitary and police patrolling the streets. Terrorist groups in Pakistan pose a threat to U.S. citizens and other westerners. There is potential for anti-U.S protests, which can turn violent. Embassies of most western countries, including the United States, United Kingdom, Canada, Australia, and New Zealand, have issued travel advisories against non-essential travel to Pakistan. Consequently, western businesses operating in Pakistan require costly security measures.

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

13. Corruption

Corruption remains widespread in Pakistan at the federal level, especially in government procurement, international contracts, and taxation. There are anecdotal reports that corruption has increased at the provincial level following the 2010 Constitutional Amendment that devolved responsibility for many service-delivery oriented issues, such as health, education, and environmental regulations, from the federal to the provincial governments. Offering and accepting bribes are criminal acts punishable by law and could result in confiscation of property, imprisonment, recovery of dishonest gains, and dismissal from government service or a penalization in governmental grade. In 2014, Pakistan ranked 126 out of 177 countries on the Transparency International Corruption Perceptions Index.

Government officials frequently engage in corrupt practices without any consequences. Constituted under the 1999 National Accountability Ordinance, the National Accountability Bureau (NAB) is the country’s anti-corruption organization, with a mandate to expose and prevent corrupt activities, and to enforce anti-corruption laws. Initially, NAB was used as a tool to target political opponents. However, after receiving criticism from the public, the NAB refocused its strategy in 2002. NAB struggles with insufficient funding and staffing.

The CCP targets corrupt activities, such as collusive practices, abuse of market dominance, and deceptive marketing. Despite dynamic leadership, active community engagement, and triumphs in lower level courts, the CCP is hindered by insufficient government funding and slow progress of cases in the court of appeals. Corruption is pervasive in politics and government, and various politicians and government officials have faced allegations of corruption, including bribery, extortion, cronyism, nepotism, patronage, graft, and embezzlement.

The 2007 National Reconciliation Ordinance (NRO), promulgated under former President Pervez Musharraf, allowed the government to grant amnesty to public officials 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 President Musharraf and sitting ministers and parliamentarians. 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, even considered normal by the general public. Transparency International notes that the major root cause of corruption is the lack of accountability and enforcement of penalties, followed by the lack of merit-based promotion and earnings, as well as overall low salaries. According to a survey, some police officers even charge fees to report complaints. Using bribes to avoid criminal prosecution is common practice. The appointment of station house officers – a powerful rank in the Pakistani police force – is politicized.

The previous government was voted out of office based on widespread corruption cases that emerged during their term. Some cases made it up to the Supreme Court, such as the rental power plant projects, ephedrine import, and the Hajj corruption case. Since 2013, PML-N has made progress towards introducing anti-corruption policies and prosecuting high officials accused of being involved in corruption.

There are reported cases of bribery and nepotism in the district and lower courts. Judges in lower courts lack independence and are sometimes pressured by higher court judges. Lower courts remain corrupt, inefficient, and subject to pressure from prominent wealthy, religious, and political figures. Political involvement in judicial appointments increases the government's hold over the court system.

The 2002 Freedom of Information Ordinance allows public access to federal government records. The ordinance does not apply to government-owned corporations or provincial governments. The government must respond to requests for access to information within 21 days of the request being submitted. Classified documents that could be harmful to pending cases or that would cause grave and significant damage to the economy and the interests of the nation if released are restricted from public access. NGOs criticized the ordinance for exempting broad swaths of information and for failing to encourage government departments to disclose information proactively.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Pakistan is not a signatory to the Organization of Economic Cooperation and Development (OECD) Convention on Combating Bribery, but is a signatory to the Asian Development Bank/OECD Anti-Corruption Initiative. Pakistan has also ratified the UN Convention against Corruption.

Resources to Report Corruption

Contact at government agency or agencies are responsible for combating corruption:
- Major (Retd) Qamar Zaman Chaudhary
- Chairman
- National Accountability Bureau
- ATTATURK AVENUE G-5/2, Islamabad
- +92-51-111-622-622
- chairman@nab.gov.pk

Contact at "watchdog" organization (international, regional, local or nongovernmental organization operating in the country/economy that monitors corruption, such as Transparency International):
- Sohail Muzaffar
- Chairman
- Transparency International
- 5-C, 2nd Floor,Khayaban-e-Ittehad, Phase VII, D.H.A., Karachi
- 0092-21-35390408-9
- ti.pakistan@gmail.com

14. Bilateral Investment Agreements

Pakistan and the United States began negotiating a Bilateral Investment Treaty (BIT) in 2004. Negotiations have been held intermittently since then and are currently stalled. Pakistan has bilateral investment agreements with Australia, Azerbaijan, Mauritius, Bahrain, Bangladesh, Morocco, Belarus, the Netherlands, the 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, the United Arab Emirates, Kyrgyz Republic, United Kingdom, Lebanon, Uzbekistan, Laos, and Yemen.

Bilateral Taxation Treaties

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

The Overseas Private Investment Corporation (OPIC) maintains an active portfolio of projects in Pakistan, including new investments in renewable energy. Projects must meet OPIC eligibility guidelines both for investment insurance and co-investment.

16. Labor

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

The18th Constitutional Amendment gives jurisdiction over matters related to labor to the provinces. In Punjab, Khyber Pakhtunkhwa, and Islamabad, the minimum wage is PKR 12,000 per month (USD 120). In Sindh, it is PKR 11,000 per month (USD 110), and in Baluchistan is PKR 9,000 per month (USD 90). Labor law enforcement is weak at both the federal and provincial levels. Required labor inspections by and large do not take place, and low-level labor courts are generally considered corrupt and strongly biased in favor of employers. Furthermore, labor protection does not extend to a majority of the labor force, most notably agricultural workers. Pakistan does not comply with International Labor Organization (ILO) conventions, despite having ratified 34 conventions relating to human rights, workers' rights, and working conditions. International employers and exporters often have international certifications demonstrating 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 (ESMA). The ESMA bans strikes, limits workers' rights to change employment, and presents limited options to a fired employee. While ESMA provides collective bargaining rights, it is almost never applied.

Widespread criticism of Pakistan's confusing labor laws led to the creation of a government commission in 2000 with the mandate to revise and consolidate Pakistan's labor legislation. The President enacted the Industrial Relations Ordinance on July 18, 2011. All the provinces have enacted the Industrial Relations Acts. According to government estimates, approximately five percent of the industrial labor force and two percent of the overall workforce are unionized. The GoP announced labor welfare measures in 2010 including the extension of social security eligibility to workers earning up to PKR 10,000 (USD 100) a month, creation of a Complaint Cell to address workers complaints, guaranteed payment of full wages to suspended workers, expansion of the government retirement benefits plan to establishments employing five or more workers, an increase in marriage and death grants, and increase in workers' eligibility for company profit-sharing awards. The provinces are responsible for implementing these measures. 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 international conventions on human and labor rights, sustainable development, and good governance.

17. Foreign Trade Zones/Free Ports/Trade Facilitation

The GoP established the first Export Processing Zone (EPZ) in Karachi in 1989, providing special fiscal and institutional incentives to export-oriented industries. The GoP subsequently established seven other EPZs in Risalpur, Gujranwala, Sialkot, Saindak, Gwadar, Reko Dek and Duddar. Only the zones in Karachi, Risalpur, Sialkot, and Saindak are operational. The main incentives for EPZ investors are exemptions from taxes and duties on equipment, machinery, and materials (including components, spare parts, and packing material); indefinite loss carry-forward; and access to EPZ Authority "One Window" that facilitates the issuance of import permits and export authorizations. The EPZA collects between 0.5 and 1.25 percent in taxes for exported goods, in addition to a 0.5 percent development surcharge. Otherwise, there is 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. There are no minimum or maximum limits on investment in EPZs.

Despite offering substantial financial, investor service, and infrastructural incentives to reduce the cost of doing business, most of these zones have failed to attract any significant investment due to their inability to offer reliable gas, electricity, and water supplies. The 2012 Special Economic Zones (SEZ) Act represented an effort to create industrial clusters with liberal incentives. Regulations allow private parties to establish companies as well as public-private partnerships within SEZs.

The GOP offers incentives for other categories of export manufacturing. An Export-Oriented Unit (EOU) is a stand-alone industrial entity that exports 100 percent of its production. EOUs are allowed to operate anywhere in the country. EOU incentives include duty and tax exemptions for imported machinery and raw materials in addition to 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) ($M USD)	2014	254,002	2014	224,891	www.worldbank.org/en/country
Foreign Direct Investment	**Host Country Statistical source***		**USG or international statistical source**		**USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other**
U.S. FDI in partner country ($M USD, stock positions)	2014	319.1	2012	218	http://bea.gov/international/factsheet/factsheet.cfm?Area=622
Host country's FDI in the United States ($M USD, stock positions)	2013	92	2012	66	http://bea.gov/international/factsheet/factsheet.cfm?Area=622
Total inbound stock of FDI as % host GDP	2013	0.13%	2012	0.10 %	

*State Bank of Pakistan http://sbp.org.pk/ecodata/index2.asp

Table 3: Sources and Destination of FDI

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	10,586	100%	Total Outward	829	100%
United Kingdom	1,905	18%	United Arab Emirates	165	20%
United Arab Emirates	1,638	15%	Kingdom of Bahrein	73	9%
United States	1,204	11%	United States	60	7%
China	589	6%	Sri Lanka	56	7%
Netherlands	533	5%	Oman	51	6%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: IMF Coordinated Direct Investment Survey

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			**Equity Securities**			**Total Debt Securities**		
All Countries	483	100%	All Countries	236	100%	All Countries	247	100%
Saudi Arabia	216	45%	Saudi Arabia	194	82%	United Arab Emirates	46	19%
United Arab Emirates	50	10%	Virgin Islands, British	12	5%	Qatar	31	13%
Qatar	31	6%	United Kingdom	8	4%	Saudi Arabia	22	9%
Cayman Islands	25	5%	Switzerland	6	2%	Cayman Islands	22	9%
Japan	22	4%	United States	5	2%	Turkey	20	8%

Source: IMF Coordinated Portfolio Investment Survey

19. Contact for More Information

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