

INVESTMENT OPPORTUNITIES IN PAKISTAN

(in the Covid-19 era)

Pakistan is home to the world's 6th largest population; an approximately 17 million middle class households and 102 million middle class individuals. Given the persistent increase in final consumption, Pakistan's market of 207 million, coupled with growing disposable income and a changing lifestyle, is primed for new investments. Considering its growing youth bulge, the UNDP has termed Pakistan as the **2nd youngest country** in the world after Afghanistan as it has the largest number (64%) of youth population under 29 years of age.

As per the "World in 2030 Report" published by HSBC Global Research, Pakistan is ranked among the top countries that would be the driving force behind global economic growth during the years leading up to 2030. Once known as the land of chaos and disorder, Pakistan is swiftly transforming its international image as the country is gradually advancing on an upward growth trajectory.

Since the last few years, the government has undertaken rigorous structural and policy reforms leading to an **improved investment eco-system**. These efforts have been acknowledged globally by the World Bank through its 'Ease of Doing Business (EoDB) Report 2020' which reflects as how easy or difficult it is for a local SME to open and run a business while complying with relevant regulations. Pakistan now ranks at 108 on the global EoDB ranking after a tremendous jump of 28 points. Further improvement in the ranking is expected this year.

While government has for the past several years focused on export-led growth; however, **COVID-19** has exposed the vulnerabilities involved in trade and investment. The social and economic disruptions as a result of this pandemic threaten the present economic realities on one hand but also bring significant opportunities on the other hand. In response, companies in multiple sectors are already transforming their products, processes, and business models. FDI is expected to witness a major decline in Physical Tourism, Entertainment, Retail, Luxury goods, Aviation, Real estate, Coal, Oil & Gas, and Automotive due to the social restrictions, price wars, lock downs and shutdowns.

However, amidst this situation, there are **growth and investment opportunities** that can be harnessed in food processing, consumer goods, logistics, entertainment & communications, financial services, eCommerce, EdTech, Health-Tech, textile, and tourism.

Liberal Investment Regime

Pakistan follows a liberal investment regime and foreign investment promotion policy. The Government has taken a series of economic liberalization measures to make the country more attractive.

Highlights of Investment Policy, 2013

1. Equal treatment to local and foreign investors.
2. All economic sectors open to FDI except a few specified restricted industries like arms and ammunition, explosives, radio-active substances, security printing, currency and mint.
3. Foreign equity up-to 100% is allowed without any minimum requirement of investment. However, restriction exists on foreign ownership of equity on certain sectors like airline, banking, media, and agriculture.
4. Remittances of royalty, technical and franchise fee, profits, dividends, and capital and capital gains are allowed.
5. Foreign Investment is fully protected by Foreign Private Investment [Promotion & Protection] Act, 1976 and Protection of Economic Reforms Act, 1992.
6. Bilateral Investment Treaties (BITs) have been signed with 48 different countries to promote foreign investment in the country and to enhance confidence of foreign investors and protection of their investment.
7. Besides Pakistan also signed Agreements for Avoidance of Double Taxation with different countries to facilitate and promote investment activities.

Read Full version of the Investment Policy 2013: <https://invest.gov.pk/investment-regime#gallery-2>

A GLOBAL PRODUCER IN AGRICULTURE AND LIVESTOCK PRODUCTION

- 4th largest mangoes producer
- 5th largest milk producer globally
- 11th largest citrus producer
- 11th largest poultry producer
- 13th largest rice producer
- 4th largest cotton producer
- 8th largest wheat producer
- 8th in total cattle production

(Source: Pakistan Bureau of Statistics).

There is substantial potential for investment in the agriculture and livestock sector.

- There is significant room for Pakistan in the **Global halal food market** and processed **milk and dairy products**. Only 3% of the total milk is processed.
- There is an immense opportunity to produce **high-quality seeds as well as edible oils**
- Of the 16.5 million hectares of cultivable land in Punjab, a vast 1.7 hectares are still available for **corporate farming**.

- As much as 30% of horticulture produce that goes to waste every year can be converted into economic gain by investing in **agribusiness value chain industries**.

Due to health hazards that unpackaged food possesses, amidst Coronavirus pandemic, the demand for **canned food, and packaged food** is expected to increase. Even the food items that are to be consumed fresh, will need proper air-tight, and sanitized packaging to be acceptable for consumption given the wide-spread of the virus.

TEXTILE: THE MOST IMPORTANT MANUFACTURING SECTOR OF PAKISTAN

It contributes nearly 1/4th of industrial value-added and provides employment to about **40 percent** of industrial labor force. The ready-made garments industry has emerged as one of the important small-scale industries in Pakistan. These readymade garments and products have large demand both at home and abroad and there is immense room for investment in this sector.

- **4th largest producer and third largest consumer of cotton in the world**
- **3rd in the world in terms of Yarn Production**
- **Duty Free Access to European Union**

In the Post Covid-19 world of fashion, instead of using traditional materials, and cuts, the designers will be required to provide solutions to the now **health conscious, germophobe** populous. This transformation will require investment and more than that governmental support to see it through.

MINERALS RESERVES COVERING AN AREA OF 600,000 SQ. KMS.

- **2nd in the world in salt mines**
- **5th largest in terms of copper and gold reserves,**
- **2nd largest coal deposits.**

There are 92 known minerals of which 52 are commercially exploited with a total production of 68.52 million metric tons per year. The sector is a promising one with an average growth of 2-3% per annum, existence of above 5,000 operational mines, 50,000 SMEs and direct employment of 300,000 workers.

Despite huge potential, contribution of mineral sector to Pakistan's GDP is around 3 %. This sector is lagging behind despite huge potential, due to interconnected and cross cutting issues like lack of infrastructure at mines sites, low level of technology installed and semi-skilled labor, low financial support, and lack of marketing.

(Source: Pc.gov.pk)

CONSTRUCTION INDUSTRY: CATALYST OF ECONOMIC GROWTH OF PAKISTAN

- **26th** in the world in the Apparent Steel Use of finished products (2017)
- **5th** in the world in iron ore reserves estimated at 1.4 billion MT

The economic landscape of Pakistan has grown massively with the commencement of CPEC and its infrastructure and power focused projects, which inherently helped boost **the steel industry**. Overall, the domestic steel industry is benefiting from an encouraging investment and operational stimulus

AN EXPONENTIAL INCREASE IN TOURISM SECTOR

Significant improvement in security situation, its recognition in international media, and keen interest of the present government to further develop the tourism sector as lead to emergence of numerous investment opportunities.

- E-visa facility for **175 nations**, visa-on-arrival for **50 countries**
- Pakistan has some of the world's coolest resorts and hub to the world's tastiest foods.

In the perspective of Covid-19 outbreak, domestic travel and tourism can be expected to substitute foreign tourism demand. Another option will be **organizing virtual events** to showcase cultural and heritage resources. Vested organizations, graphic designers, IT experts, filmmakers and photographers need to work collaboratively to digitize all these resources, creating **electronic and virtual tourism options** which calls for investment.

INFORMATION TECHNOLOGY: ONE OF THE FASTEST GROWING SECTORS IN PAKISTAN

According to US Technology Giant, Google, Pakistan is becoming a 'Digital-First country', paving new opportunities for businesses to digitally engage with consumers. It holds huge potential for growth and investment in technology enabled solutions, besides traditional sectors. With the penetration of the internet and the rising use of smartphones and 3G/4G in the past few years, there is a surge in connectivity.

- **4th** fastest growing freelance market
- **64%** of the population below the age of 30
- **Zero** Income Tax on IT & ITes exports till June 2025
- **100%** foreign ownership of IT & ITes companies
- **100%** repatriation of profit to foreign IT & ITes investors

In the Covid-19 context, the following areas will invite opportunities for investment in the IT sector in Pakistan.

1. Logistics

Digitally equipped, and contactless logistical solutions are the need of the hour. Ecommerce is the future mode of trade. Investment opportunities will present themselves, in businesses that use technology to deliver physical goods without involvement of human hands.

2. Entertainment and Communications

With a large part of population comprising of Millennials that have just started earning, Pakistan is primed for such entertainment and communications solutions that are available at the palm of their hands. Such untapped market provides an opportunity for IT companies to invest in Pakistan.

3. Financial Services

With large demographics still not privy to the benefits of contactless banking, the investment in such solutions by banks will prove profitable. Lucrative investment opportunities exist in the financial sector of Pakistan, in strategies that focus market penetration.

4. eCommerce

Pakistan is working towards attracting investment in the eCommerce sector. Now, Foreign investment opportunities will present in the form of increased online retail demand and a minimal number of solutions available in Pakistan.

5. EdTech

In this new world, investment in technology-based education solutions will prove to be profitable. Solutions like Udemy, Skill share, Edex, and Linda will now be widely in demand, in developed and developing countries alike.

6. HealthTech

Technology powered by artificial intelligence (AI) is helping track the outbreak, clean hospitals, deliver supplies and develop vaccines, with governments encouraging universities and corporations to expedite innovations. Investment in such solutions is not only the need of the hour but is demanded by the future as well.

7. Protection in Digital World

Increased digitalization would call investment in data protection solutions that can successfully be deployed in organizations, and are customizable given different risk appetite are needed, along with appropriate set of policies and guidelines to offer a well-rounded response.

SPECIAL ECONOMIC ZONES (SEZs) IN PAKISTAN

With the digital world becoming a reality, state of the art SEZs, governed by the SEZs Act 2012, are being developed in Pakistan, including 09 SEZs under the China Pakistan Economic Corridor (CPEC) to meet the modern-day challenges and ensure meaningful export-led labor-intensive industrialization. These encompass the creation of ample investment opportunities along with the prospects of Chinese relocation of industries due to various shifts in global economy as well as the changes in international relations.

- Minimum land requirement for SEZs is **50 acres** (20.23 hectares or 202,343 Sq m) with no maximum limit.
- **Fiscal Incentives for SEZs**
 - **For Developers**
 - One-time custom duties exemption on import of Capital Goods
 - Income Tax exemption for 10 years from the date of signing of Development Agreement.
 - **For Co-Developers**
 - Co-developers eligible for concession and exemptions available to the developers of SEZs, subject to relinquishment of the same by the developer.
 - **For Zone Enterprises**
 - One-time custom duties exemption on import of Capital Goods
 - Income Tax exemption for 10 years from the date of commencement of commercial operation.

The SEZs in Pakistan that are in advance stage include

- i. Rashakai SEZs
- ii. Allama Iqbal Industrial City (AIIC) SEZ
- iii. Dhabeji SEZ
- iv. Bostan SEZ

RASHAKAI SEZ, KPK

1. Name of the project:	Rashakai (SEZ)
2. Total area:	1000 acres
3. Location:	At the junction of Karakoram Corridor and ML-1
4. Developer:	RSEZDOC
5. Purpose:	High-end host of international commercial, tech & manufacturing hub
6. Employment	It is expected to create around 200, 000 jobs
7. Contribution to GDP	It would contribute 2.3% to the provincial GDP.

The following industries would be accommodated in the zone:

Industrial Sectors
Garment and Textile Products
Home Building Materials
General Merchandise
Electronics and Electrical Appliances
Automobile and Mechanical Equipment

BOSTAN SEZ BALOCHISTAN

1. Name of the project:	Bostan Special Economic Zone (SEZ)
2. Total area:	1000 acres
3. Location:	District Pashin, 35 KM from Quetta
4. Developer:	Industries and Commerce Department
5. Purpose:	To develop agriculture, minerals, and construction industries
6. Employment generation	It will generate 30,000 direct and 300,000 indirect jobs
7. Contribution to GDP	Commercial activities worth Rs. 2,564 billion, exports Rs. 512 billion.

The following industries would be accommodated in the zone:

Industrial Sectors
Fruit processing
Agriculture machinery
Minerals and gems
Ceramic industries
Ice and cold storage
Electrical appliances
Motor bikes assembly
Pharmaceutical and Halal food industry

M-3 ALLAMA IQBAL INDUSTRIAL CITY FAISALABAD

1. Name of the project:	M-3 Allama Iqbal Industrial City, Faisalabad
2. Total area:	3,217 acres Approximately
3. Location:	Motorway M-4, Sahianwala Interchange
4. Developer:	FIEDMC
5. Purpose:	To develop textile and apparel products

The following industries would be accommodated in the zone:

Industrial sectors
Textiles
Pharmaceuticals
Packaging
Light Engineering
Iron & Steel rolling
Food Processing
Mechanical & Electronics
Chemicals & Dyes
Automobiles
SMPS
Warehousing
Ceramics/Construction material

DHABEJI SPECIAL ECONOMIC ZONE (SEZ)

1. Name of the project:	Dhabeji Special Economic Zone (DSEZ)
2. Total area:	1530 acres of land
3. Location:	Dhabeji, Thatta
4. Developer:	Yet to be decided*
5. Purpose:	to transform into an Expatriate Enclave with modern infrastructure and tax incentive package

The following industries would be accommodated in the zone:

Investment Opportunity Sectors
Steel Foundries
Automotive and Auto parts
Chemical & Pharmaceuticals
Consumer Electronics Engineering
Textile & Garments
Warehousing
Building Material
FMCG

EXPORT PROCESSING ZONES

Export Processing Zones (EPZA) is a venture of Government of Pakistan, conceived and designed to increase and improve the exports of the country. Its main objectives are accelerating the pace of industrialization in the country and enhancing the volume of exports by creating an enabling environment for investors to initiate ambitious export-oriented projects in the Zones which would, as a corollary, create job opportunities, bring in new technology and attract foreign investment.

The incentives being offered at EPZ's are

- Developed land on competitive rates for 30 years
- Duty-free import of machinery, equipment and materials
- Freedom from national import regulations
- Exchange control regulations of Pakistan not applicable
- Repatriation of capital and profits
- No sales tax on input goods including electricity/gas bills
- Duty-free vehicles allowed under certain conditions
- Domestic market available to the extent of 20%. Exceptions may be available
- Presumptive tax @ 1%
- Only EPZA is authorized to collect Presumptive Tax at the time of export of goods which would be final tax liability
- Obsolete/old machines can be sold in domestic market of Pakistan after payment of applicable duties & taxes
- Defective goods/waste can be sold in domestic market after payment of applicable duties, maximum up-to 3% of total value
- EPZ units allowed to supply goods to Custom manufacturing bonds

Export Processing Zones Authority has established an extensive network of Export processing Zones all over the country. These EPZs have been established in close cooperation or under joint venture arrangements with the private sector. Two zones have been established in the Punjab province (districts Gujranwala & Sialkot) and one in Khyber Pakhtunkhwa at Risalpur. Single entity mining zones are functioning in Saindak (District Chaghai) and Duddar (District Lasbela) in Balochistan Province. Pakistan's first ever DRI (Direct Reduced Iron) producing unit Tuwarqi Steel Mills Ltd. has been established in Karachi near Port Bin Qasim.

RESTRICTED SECTORS

Both foreign and domestic investors are restricted to establish and own business enterprises in the following **five industrial sectors** which are of national importance:

- arms and ammunitions
- high explosives
- currency/minting operations
- non-industrial alcohol
- radioactive substances.