OICCI

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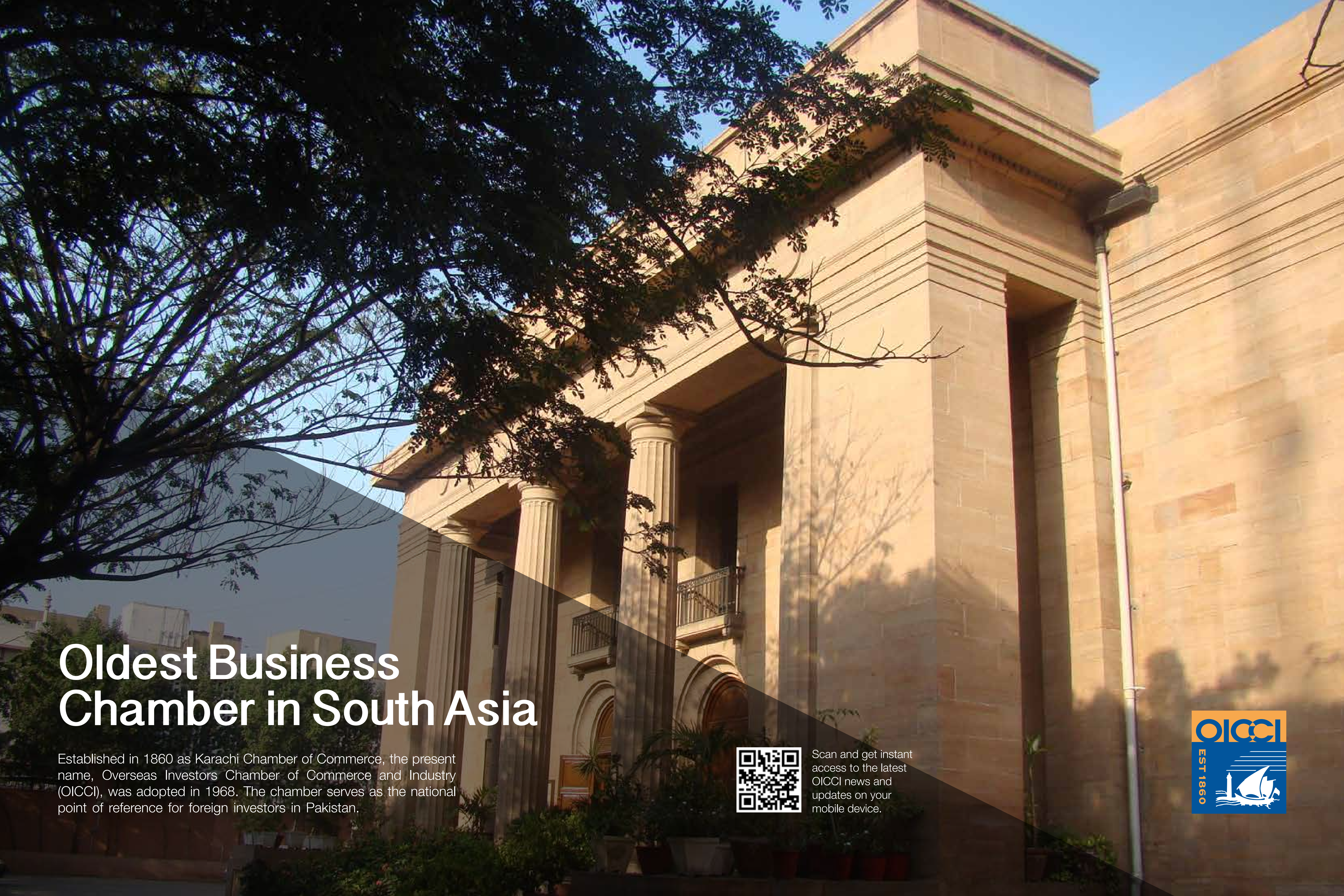
Overseas Investors Chamber of Commerce and Industry

Perception and Investment Survey 2017



Oldest Business Chamber in South Asia

Established in 1860 as Karachi Chamber of Commerce, the present name, Overseas Investors Chamber of Commerce and Industry (OICCI), was adopted in 1968. The chamber serves as the national point of reference for foreign investors in Pakistan.

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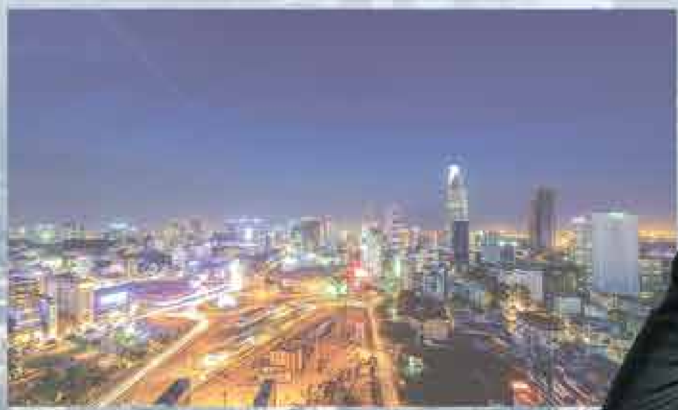
OICCI MEMBERS COME FROM ALL OVER THE WORLD




Vision

To be the premier body for promoting new and existing overseas investment in Pakistan by leveraging the world-class expertise of OICCI members for the benefit of the investors and the country

Mission

- To assist in fostering a conducive, open and equitable business environment in Pakistan
- To facilitate the transfer of best global practices to Pakistan
- To enhance the image of overseas investors in Pakistan and of the country abroad

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Disclaimer

The report has been prepared by the Overseas Investors Chamber of Commerce and Industry (OICCI) based on the data/information provided by member companies who responded to the survey. The analysis and comments are based on the data provided.

Introduction

About us

The OICCI is the collective voice of all major foreign investors in Pakistan. Established over 157 years ago in 1860, primarily as a business chamber for foreign investors, today, the OICCI is not only engaged in the promotion and protection of existing foreign investment in the country and attraction of new foreign investment, but its diversified activities also contribute significantly to supporting commerce and industry across the country.

The nearly 200 OICCI members, from 35 different countries, have presence in 14 sectors of the economy and contribute nearly one-third of Pakistan's total tax revenue and employ approximately one million people, directly or indirectly, in support of their business activity. The OICCI member companies have assets of over US$ 83 billion, and 56 OICCI member companies are listed on the Pakistan Stock Exchange. Nearly 50 members are associates of the 2016 Global Fortune 500 Companies. Besides their business operations, the OICCI members realize their corporate social responsibilities and are major contributors to various CSR activities, which benefit over 40 million people in underprivileged communities across Pakistan in the areas of healthcare, education, gender equality and other sectors, besides making significant contributions whenever there have been natural calamities.

Most international trade delegations interact with the OICCI to get an independent view of the investment climate in the country. Incentives offered by the government to investors, experience of OICCI members who are foreign investors and their success stories, are always highlighted at OICCI forums and international investment forums focusing on Pakistan.

The OICCI issues policy statements on matters of interest to investors on subjects like Taxation, Intellectual Property, Free Trade Agreements and other matters related to business. The annual OICCI Taxation Proposals, which include specific points on broadening the tax base and documentation of the economy, are widely appreciated by FBR and the provincial revenue authorities, as well as other stakeholders for their comprehensive and progressive coverage of several issues.

Activities

Significant activities in which the OICCI is engaged include, inter-alia, acting as catalyst to attract Foreign Direct Investment, enforcement of Intellectual Property Rights, creating a level playing field for all investors in the areas of taxation, tariffs protection, international quality standards, physical safety and security of member companies' employees and assets and transfer of best global technology and practices in business to Pakistan by leveraging world class expertise of OICCI members for the benefit of all investors and the country.

In spite of current challenging operating constraints, which has resulted in FDI inflow into the country being well below its true potential for the last few years, OICCI members are largely bullish about their respective organizations and this is also reflected in the US$ 2.2 billion invested in new capital expenditure during 2016.

The OICCI remains regularly engaged with various stakeholders and conducts research and surveys to seek first hand assessment of the operating environment, including constraints to growth and investment. The chamber is actively engaged with the key stakeholders, through one-to-one basis and group activities, to progressively narrow the gap between policies and its implementation including making constructive recommendations to policymakers for improving the business and investment environment. Being the collective voice of 200 large foreign investors in Pakistan, the chamber has a critical role to play in ensuring that policymakers are aware of and sensitive to the changing business environment with new challenges and opportunities both within the country and in the region. This interactive relationship is critical for facilitating retention of existing foreign investors and in attracting large new FDI, in competition with other regional countries.

All in all, the OICCI assists in creating an investment friendly, forward looking and equitable business environment in Pakistan. The chamber is regularly engaged with the relevant federal and provincial government authorities and various regulatory bodies to formulate business-friendly policies which serve as a reference point for foreign investors.

OICCI Recent Research Publications/Surveys

- OICCI Perception and Investment Survey 2015
- Business Confidence Index - Wave 14 and 15, 2017
- OICCI Taxation Proposals 2017-18 to Federal and Provincial Revenue Authorities
- OICCI CSR Report 2016-17
- OICCI Security Survey 2017
- Energy Reforms 2017: Current Challenges, Opportunities and Policy Recommendations
- OICCI IPR Survey 2017
- OICCI Gender Balance Survey 2017

Purpose of the Survey

The Perception and Investment Survey supports the core activities of OICCI and serves as an independent benchmark for all stakeholders, including existing and potential foreign investors, the Government of Pakistan, the provincial governments, various regulatory bodies, the media and relevant diplomats and international agencies like World Bank, IFC etc. The Perception and Investment Survey provides a fact based feedback from the existing investors on various aspects of doing business in Pakistan, besides highlighting the potential of the country, and issues which require corrective actions to create a more conducive business and economic climate of the country.

The informed viewpoint coming out of this survey has the potential to lead, and it often does, to meaningful debate in various critical forums, enabling appropriate policy reforms for the betterment of Pakistan economy.

The Perception and Investment Survey is conducted by the OICCI every two years. The present survey was preceded by one carried out towards the end of 2015.

Scope of the Survey

This survey has been conducted in accordance with generally accepted research standards in Pakistan.

In line with accepted norms of survey patterns, the questionnaire of this survey was designed with a strong link to the previous survey to enable comparisons between two survey points. However, this year's survey questionnaire was modified to seek specific input on current business issues as well as regulatory, economic and socio-political developments impacting OICCI members directly or indirectly. The latest survey, for instance, includes new questions related to CPEC, impact on new investments due to upcoming 2018 parliamentary elections, Pakistan's membership in the Shanghai Cooperation Organization (SCO) and becoming a signatory of the Organization for Economic Co-operation and Development (OECD), changes introduced in last Federal and Provincial Finance Acts and other new provincial legislations on subjects falling under provincial domain, after the 18th constitutional amendment.

It is worth reminding the readers that this survey is a consolidated view of the existing foreign investors on various aspects of doing business in Pakistan. The survey findings, it is expected, will be taken seriously by the policymakers and regulators to make Pakistan an even more attractive FDI destination in spite of stiff competition from other regional countries. For the past few years, Pakistan is seriously lagging behind in attracting its due share of FDI. This OICCI Perception and Investment Survey and similar other regular researches should be extremely useful for policymakers to appropriately improve the policy framework and its judicial implementation to encourage higher level of investment, especially FDI, in the country.

The OICCI is hopeful that the publication of the Perception and Investment Survey 2017 results and sharing them with the federal and provincial governments, regulatory bodies and other key stakeholders will not only provide direction towards improving investment climate but also help contribute towards taking actions to improve Pakistan's rating in the World Bank's Ease of Doing Business parameters.

Executive Summary

The Perception and Investment Survey 2017 was conducted between September and October 2017. Therefore, perceptions coming out of this survey reflect the latest views of foreign investors on key aspects of doing business in Pakistan.

As in the last survey conducted in 2015, the overall message coming out of this survey is somewhat mixed. The respondents have clearly vented their dissatisfaction with several aspects of doing business in Pakistan, including the unfairness of the tax regime, recent delays in the process for repatriation of dividends to foreign shareholders, and other non-import based payments (contrary to the liberal and foreign investor- friendly laws on this matter) and less than the desired support received from various government ministries and regulatory bodies. However, 75% of the respondents have stated that they foresee accelerating growth in the overall outlook for their respective businesses over the next 2-3 years and anticipate an increase not only in their sales revenue and profits but also in their employment base, which clearly indicates that despite their negative perceptions, on a number of business climate parameters, foreign investors remain positive, going forward, on the performance of their respective business entities.

All stakeholders who monitor the economy and business developments in the country will empathize with the mixed sentiments. With a population of over 200 million people and a middle-class estimated between 50 million to 70 million, bestowed with several natural resources and availability of adequately qualified human resource, well-versed in the English language, investors, economists and business analysts recognize the potential of the country, which remains largely under-exploited due to inherent complexities in doing business, which is also documented in the World Bank Ease of Doing Business Report, resulting in Pakistan receiving a negligible share in the foreign direct investment within the regional countries.

The recognition by foreign investors, already operating here for many years, of the potential for business growth and opportunities in Pakistan has resulted in 66 percent of the respondents indicating their plans to make new investments, out of which 8 out of 10 respondents plan to invest more or similar amounts over the next 1 to 5 years, as compared to the investments they made in the previous corresponding period. Moreover, 50 percent respondents plan to increase their employment base. The planned investment in business and human capital is expected to boost revenue and profitability, as 85 percent of the respondents are expecting increased sales and 68 percent expect their profits to rise. Apart from the fact that the above plans are good news for the country's youth entering the job market and should lead to enhanced contribution to the national exchequer and positive impact on both the economy and the society, these numbers should be widely projected by the authorities to attract new foreign direct investment.

Total investments indicated by respondents amount to approximately US$ 3 billion only, over the next 5 years, which is not a very significant amount considering the fact that OICCI members invested US$ 2.2 billion in the year 2016 alone, according to a separate survey done in June 2017. This low level of investments despite the considerable potential of the country and the incentives offered to foreign investors can be correlated to a number of negative business related responses in this survey. It may, however, be noted that in the 2015 survey also, similar investment amount was indicated over the next 5 years but members have already invested well above that amount in the last 2 years, beating their own estimates by a wide margin.

In respect of the "Business Environment", where Investment and Operating Conditions in Pakistan have been compared with ten regional countries, a noticeable feedback is that existing foreign investors' sentiments about the investment climate in Pakistan have improved as compared to the 2015 survey. Respondents perceive operating conditions in Pakistan to be relatively better than that in six regional countries, whereas, in the last survey Pakistan was rated higher than only four countries. India and Indonesia, which were rated better and same respectively in the 2015 survey, have now joined Vietnam, Sri Lanka, Bangladesh and Philippines in the list of six countries which are rated below Pakistan. In respect of the remaining four countries also, more respondents have given Pakistan a better rating than that in the last survey, despite the fact that macro-economic indicators, including the foreign direct investment inflow, of several countries which have been rated below Pakistan have generally been better than Pakistan.

In response to questions on "Aspects of Doing Business" a healthy improvement has been reported in respect of 'Consistent availability of utilities', which, whilst still rated rather negatively, has recorded the largest turnaround, amongst all other aspects, as compared to the 2015 survey. The other notable improvements are in 'Resolving insolvency', 'Protecting minority interest' and 'Ease of starting a business'.

The OICCI members continue to view delay in settling tax refunds, as well as delay in resolution of issues with federal and provincial governments and regulatory bodies as serious challenges in doing business in Pakistan. These two issues remain major irritants to existing foreign investors in Pakistan. Other aspects getting low ratings include 'Repatriation of profit', which has recorded the largest decline, as compared to the 2015 survey, mainly, it seems, on account of long delays over the last several months in processing of repatriation of dividends and other non-import based payments by the State Bank of Pakistan. Poor ratings have also been given to the 'Process of fulfilling tax requirements' on account of lengthy procedures for complying with various federal and provincial tax regulations, including those on withholding tax, which is not only an irritant but contributes to increasing cost of doing business. Other aspects of doing business rated low in the 2017 survey include 'Level playing field', 'Clarity/fairness of laws and regulations', 'Contract enforcement' and 'Protection of IPR'.

Except the above mentioned five parameters, the survey records improved perceptions in all other aspects of doing business. If the "Good" and the "Neutral" (neither good nor bad) ratings are added, around 70% of the responses are positive for a number of aspects of doing business like 'Access to local finance', 'Protecting minority interests', 'Efficient corporate governance', 'Safety of foreign investment' (however, the overall rating for this aspect has gone down as compared to the 2015 survey), 'Ease of starting a business', 'Registering property', 'Resolving insolvency', 'An independent legal system', 'Ease of running a business' and some other aspects.

The positive responses mentioned above reflect the liberal and investor-friendly policies of Pakistan duly recognized and appreciated by the existing foreign investors. This improved foreign investors' sentiments on doing business in Pakistan could be leveraged to attract higher level of foreign and local direct investment, if the government authorities, responsible for promoting investment and economic growth, ensure simplification in regulatory procedures and processes to become more competitive with the regional economies.

The OICCI is fully cognizant of its role in promoting a conducive business environment, and will stay engaged with the federal and provincial governments to emphasize that, while leveraging on positive aspects, areas identified as impediments to doing business and leading to negative perceptions can be addressed through good governance and consistent implementation of policies. Perceptions of foreign investors already operating in the country are important for attracting new foreign direct investment.

A noteworthy change recorded in the 2017 survey relates to "Top Challenges" faced by the leading foreign investors, who are all OICCI members. 'Energy Shortage' identified as the second biggest challenge in the last survey has dropped out of the top five challenges, whilst 'Security, Law and Order' which topped the list in the 2015 and previous two surveys has been downgraded as the third biggest challenge. Both the relegations are understandable considering the focus of the government, with significant success, to address both these issues over the last few years.

On the flip side 'Increasing tax burden' has now been identified as the biggest challenge which is not a surprise at all. The OICCI members have been regularly highlighting that the authorities, instead of broadening the tax base, continue to put more burden of taxation on compliant taxpayers. The "Super Tax" introduced in the Federal Finance Act 2015-16, is now continuing for the third year despite a clear understanding given by the Finance Minister in June 2015 that this tax would be levied for one year only. Successful companies feel that they are being penalized for good management and full tax compliance. Furthermore, sudden new policy shifts on taxation-related matters, continued procrastination in settling long overdue tax refunds, new items continuously being added to the taxes on services charged by the provincial revenue boards and the continuing lack of coordination between the federal and provincial revenue authorities is also a matter of concern for the respondents.

'Policy implementation' and governance issues not only remain an area of serious concern, but have actually become frustrating for members. Initially, there was an upbeat mood reflected in different surveys after the present federal and provincial governments took over following the elections in 2013. The foreign investors have expressed their disappointment on actual performance of the government authorities by ranking 'Policy implementation' as the second biggest challenge, two positions above the ranking in the 2015 survey.

Members belonging to the pharmaceutical sector have, once again, raised serious concerns in respect of pricing policy, which remains unresolved despite several years of dialogue between government and industry. Moreover, new drug registration process and the need to allow outsourcing of manufacturing to a recognized local third party manufacturer are core matters for the industry. Lately, the issue of parallel provincial drug authorities coming with their own regulations is also adding to the industry woes.

Responses to the question on whether the authorities engage in meaningful engagement with key stakeholders, clearly depict a poor state of affairs and the members have reported insufficient interaction in dealings with the federal and provincial governments. The Punjab government gets a reasonable rating on this aspect whereas, the Sindh provincial authorities, where over 75% of our members are based, have received very negative feedback which needs to be addressed on priority basis. Though the perception regarding the Ministry of Finance in Islamabad has improved since the 2015 survey, it needs to pay attention to the fact that one-third of the respondents considered it to be "Unsupportive", which is the highest negative rating amongst all the ministries included in this survey. This is perhaps mainly due to the uncertain taxation policies and surprises like continuation of Super Tax for last three years, overburdening of honest taxpayers, lack of headway on tax reforms and broadening the tax base, continuing issues of coordination/harmonization between central and provincial revenue boards and frustrations regarding timely processing of tax refunds, where the ministry is perceived as playing a key negative role. Key ministries like Ministry of Commerce, Ministry of Planning and Development, Ministry of Interior and Ministry of Environment have been perceived less supportive as compared to 2015 survey.

The performance of regulatory bodies reveals a mixed perception, as most of the regulatory bodies were perceived to be neither supportive nor unsupportive. The SECP fared better amongst all the regulatory bodies with over 50 percent of respondents showing satisfaction with its performance. Members' perception about the performance of SBP and BOI has gone down considerably since the last survey and it seems that in the case of SBP delays in processing of foreign currency transfers during the period of this survey has negatively impacted the central bank's perception.

The Perception and Investment Survey 2017, once again, highlighted a major disconnect between the authorities and foreign investors as only 57 percent of the respondents believe the government understands the issues facing investors, and only 27 percent feel the government is committed in resolving them. On the positive side, 60 percent of the respondents are of the opinion that the government is capable of providing redress, which is an improvement of 11 percent as compared to the 2015 survey. Similar to the previous surveys, members have strongly advocated that there should be a transparent accountability of departments/functionaries, timely corrective action for policy improvement and regular interaction with investors for effective and expeditious resolution of issues.

Members have opined that the major reasons for the very low foreign direct investment into the country over the past few years relate primarily to security concerns, poor perception of Pakistan, increasing tax burden on compliant tax paying sectors, inconsistency and unpredictability of policy measures especially on taxation, energy shortage and unsavory practices.

Despite a marginal increase in "High" and "Medium" risk, 71 percent of OICCI members perceive only "Medium" risk to their respective businesses in Pakistan, which again re-enforces the belief that the OICCI members operating in Pakistan for many years have much better understanding of the risk and reward of investing in Pakistan.

Recent accords signed by the government have all been given a thumbs up by the respondents. Majority of the respondents support the 'CPEC' projects, which most people believe will be a 'Game Changer' for Pakistan. Respondents also feel that Pakistan's membership in the Shanghai Cooperation Organization (SCO) will positively impact the business environment in Pakistan and half the respondents have shown optimism on Pakistan becoming a signatory of Organization for Economic Co-operation and Development (OECD) as this agreement may lead to broadening the tax base in Pakistan, by forcing the citizens to declare offshore income and assets.

As a concluding note, the good news for the government is that the OICCI members continue to have confidence in the country and have hopes that the business climate will improve, with 75 percent of the members stating they will recommend more foreign direct investment into Pakistan.

We thank the member companies for their active participation and acknowledge the support of the OICCI Managing Committee, Media Relations and Communications Subcommittee and the chamber's secretariat team for the compilation, analysis and publication of this survey.

The results of the survey are being shared with OICCI members, policymakers, media, foreign trade delegates and other stakeholders. We hope that the concerned authorities will take the findings of this survey very seriously and implement appropriate corrective measures quickly to streamline and improve the business environment, encouraging large local and foreign investment especially in job-creating manufacturing and services sectors, in addition to those under CPEC projects.

Khalid Mansoor
President

M. Abdul Aleem
CE/Secretary General

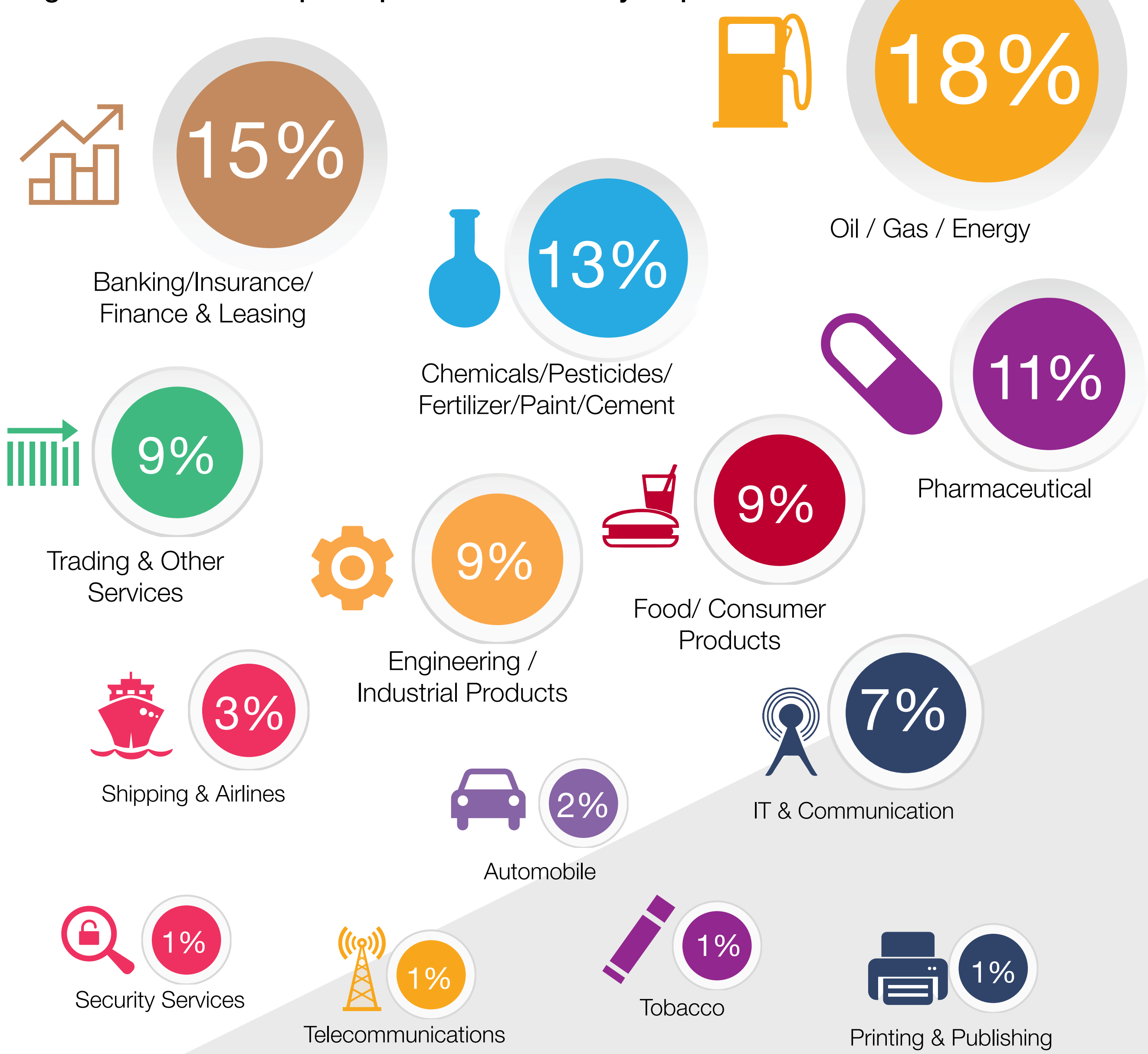
Respondents' Profile

Out of 193 members of the OICCI at the time of the survey, 141 or nearly three-fourth of the members responded to the survey. All the 14 key sectors of the economy in which our members operate are represented in this report.

Since the results are based on feedback from a significant majority of OICCI members operating in different business sectors, the survey represents the collective voice of foreign investors, currently, operating in Pakistan, and of the business community at large.

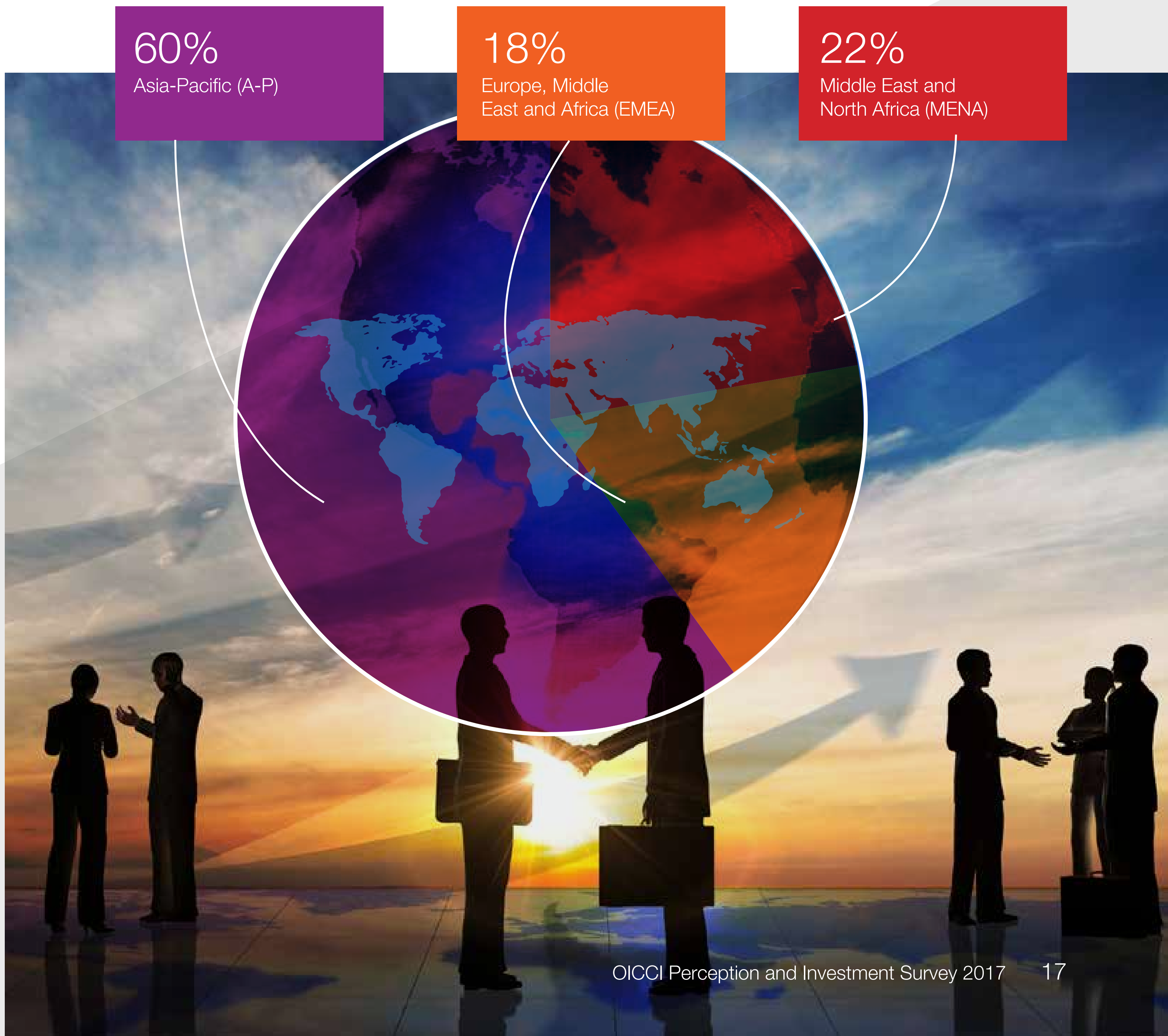
141
Members Responded

Figure 1: Sector-wise participation of the survey respondents



Regional Headquarters of Respondent Companies

Majority of the respondents have their regional headquarters in Asia-Pacific.



Analysis of Findings

Section I: Business Environment

The survey sought the views of the respective foreign-based parent company of the members on the “Investment and Operating Conditions (IOC)” in Pakistan in comparison to ten regional countries and the responses are given below. For ease of understanding, blue represents members’ perception that Pakistan offers a better business environment than the country against which it is being compared, orange represents same enviornment and red represents the perception that the country being compared is better than Pakistan. Resultantly, 66% of the members find Pakistan IOC either better or same as compared to Vietnam, whereas only 34% rate Vietnam better.

Ease of Doing Business (EODB) A Comparison with Regional Countries

- Foreign investors’ sentiments about the investment climate in Pakistan seem to have improved as compared to the 2015 survey. On combining “Better” and “Same” rating, investors perceive Pakistan IOC to be relatively better than that in six regional countries, whereas, in the last survey Pakistan was rated higher than only four countries. India and Indonesia, which were rated better and same, respectively, in the 2015 survey, have now joined Vietnam, Sri Lanka, Bangladesh and Philippines in the list of six countries which are rated below Pakistan. Moreover, in respect of the remaining four countries, more respondents have given Pakistan a better rating than in the last survey.
- Potential new investors in Pakistan will note that investors already operating in the country now perceive the IOC in Pakistan better than that in India, which was rated better than Pakistan in the 2015 survey. This reflects the outcome of the considerably more favorable laws and policies offered to foreign investors in Pakistan, like 100% foreign shareholding and relatively more freedom to repatriate dividends, royalties and capital.
- Another notable change, is the upside in sentiment about IOC in Pakistan versus Indonesia, with respondents now giving Pakistan a higher rating. However, conditions in Indonesia were given equal ranking to Pakistan in the 2015 survey.
- In comparison with the last survey, it may, however, be noted that the marked improvement, in the OICCI members’ positive perception of the business climate as compared to the business environment of other countries, including; India and Indonesia, is not consistent with the recent trend of inflow of FDI and better economic growth in these countries.

Figure 2(a): Responses in 2017

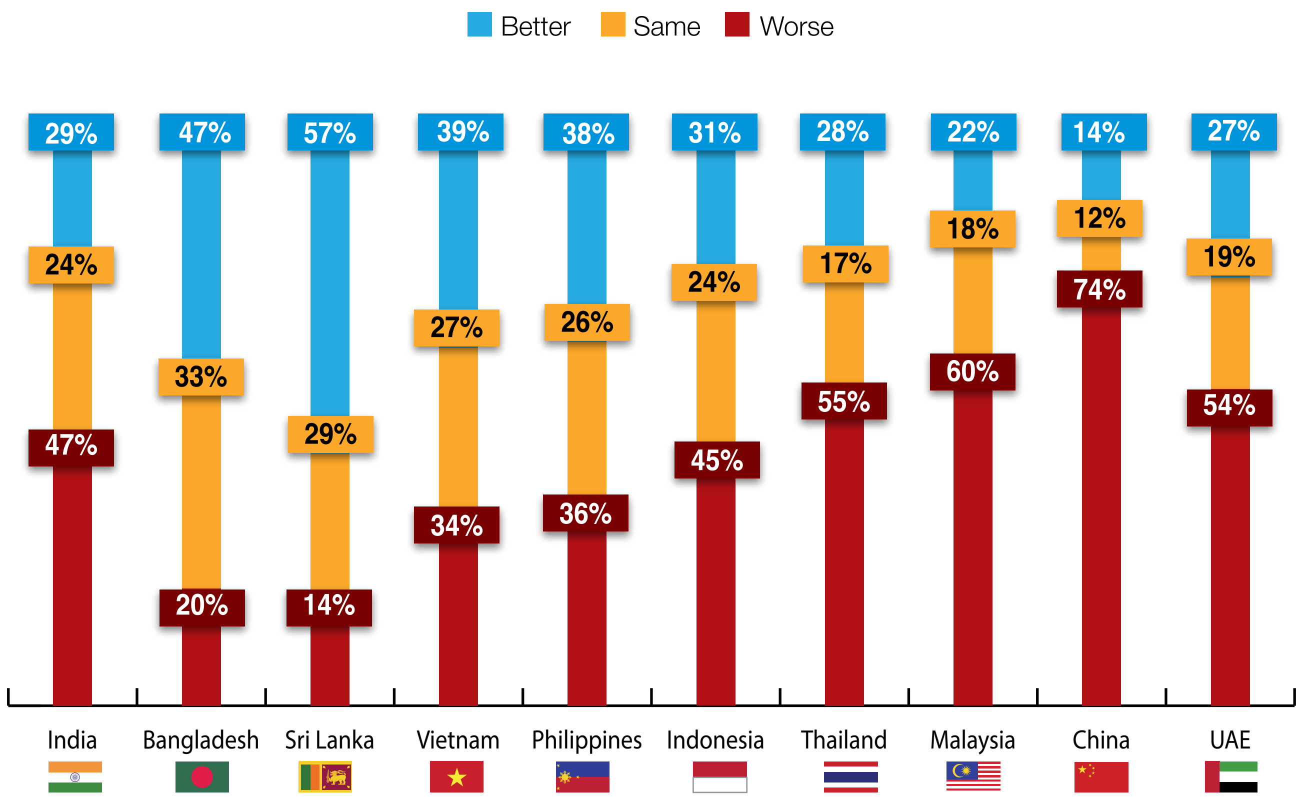
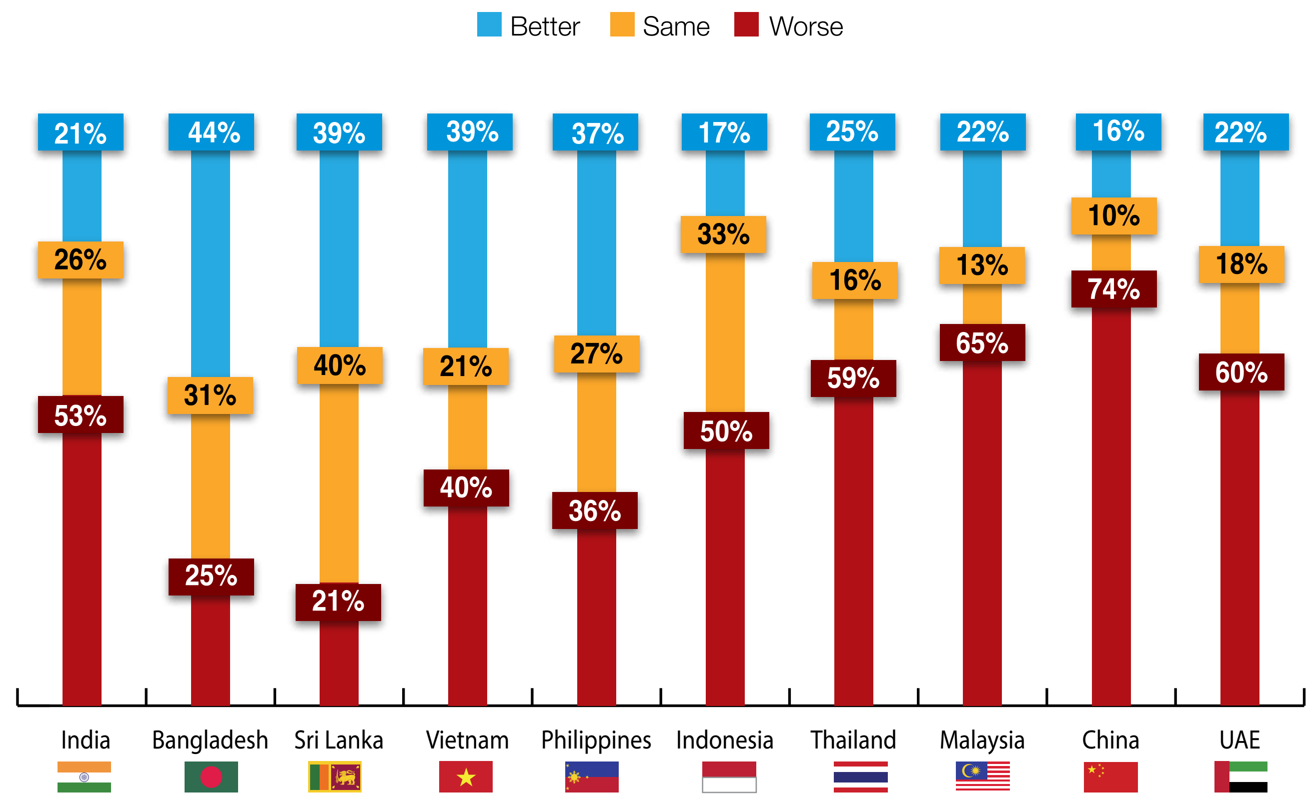


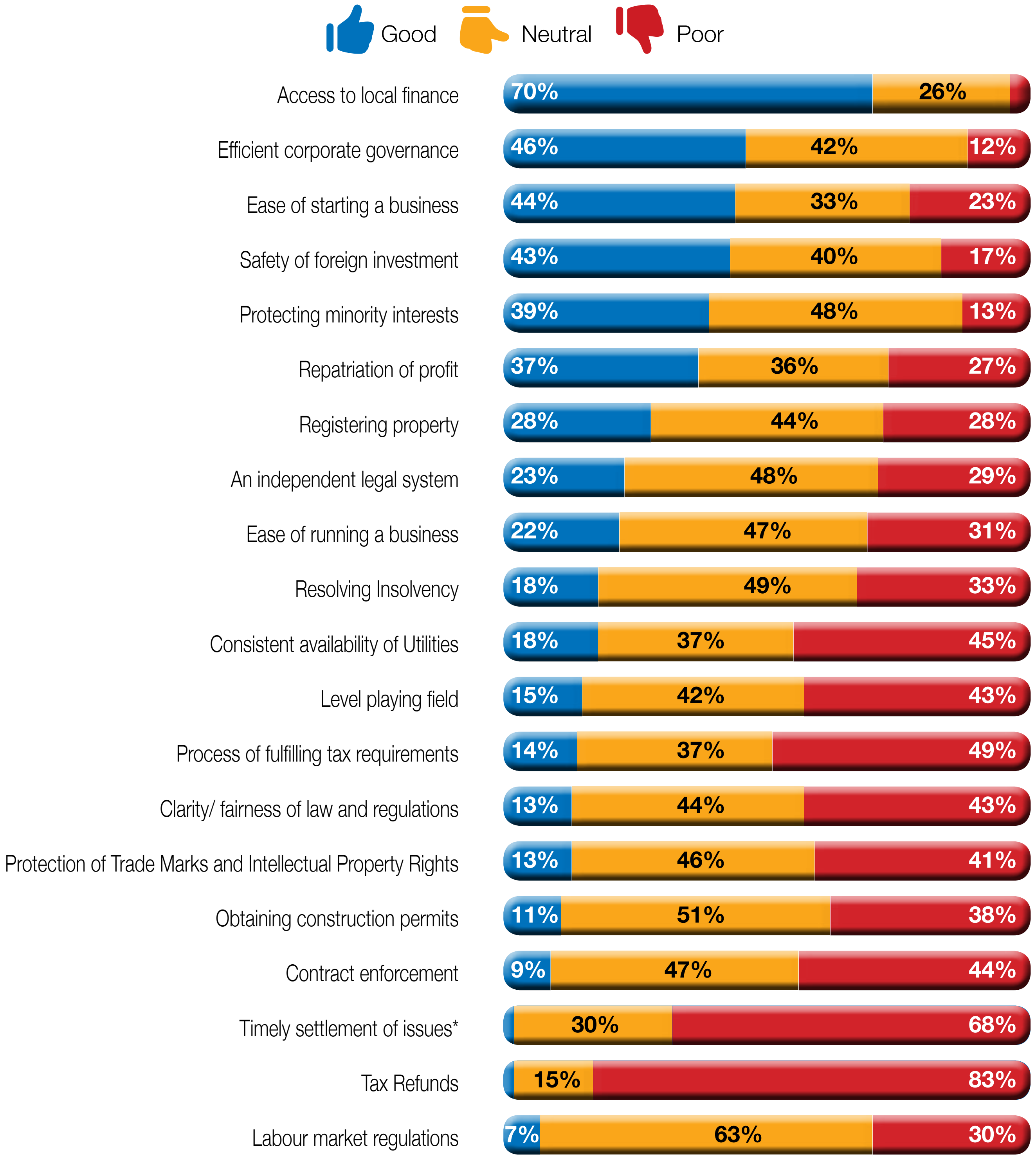
Figure 2(b): Comparative responses in 2015



Aspects of Doing Business in Pakistan

The 2017 survey includes one additional aspect of doing business parameter, as compared to the 2015 survey. This was done to align the evaluation of "Ease of Doing Business" with the annual 2017 World Bank "Ease of Doing Business" survey.

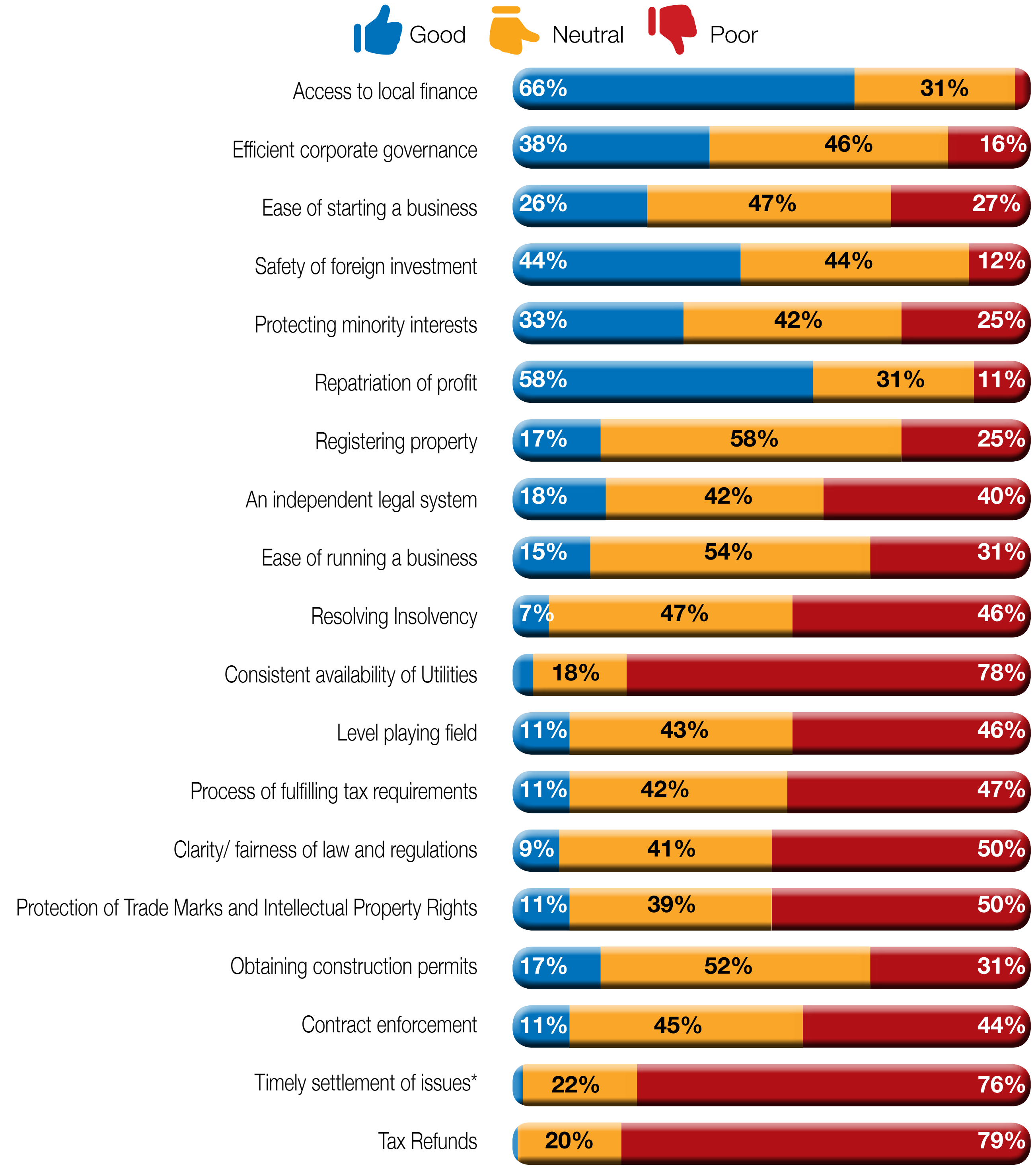
Figure 3(a): Responses in 2017



*with federal / provincial organizations

- Although 'Consistent availability of utilities' still gets a relatively bad rating, this important aspect of doing business has recorded the largest turnaround, amongst all other aspects, as compared to the respondents perception in the 2015 survey. Whilst the "Good" rating has improved from a very poor score of only 4% positive in the last survey to 18% positive, the "Bad" rating has improved from a dismal 78% negative to 45% negative in this survey. The other notable improvements are in 'Resolving insolvency', 'Protecting minority interest' and 'Ease of starting a business'.

Figure 3(b): Comparative responses in 2015



*with federal / provincial organizations

- In addition to the above aspects, the survey records improved perceptions in all other aspects of doing business except in five parameters, which are discussed later.

- If we add the "Good" and the "Neutral" (neither good nor bad) ratings, around 70% of the responses indicate that Pakistan continues to be rated positively on a number of aspects of doing business like 'Access to local finance', 'Protecting minority interests', 'Efficient corporate governance', 'Safety of foreign investment' (however, the overall rating for this aspect has gone down as compared to the 2015 survey), 'Ease of starting a business', 'Repatriation of profit' (although this aspect has recorded the biggest drop in rating as compared to the 2015 survey), 'Registering property', 'Resolving insolvency', 'An independent legal system', 'Ease of running a business' and some other aspects.

- The positive responses mentioned above reflect the liberal and investor-friendly policies of Pakistan which are appreciated by foreign investors. This highly improved foreign investors' sentiments on doing business in Pakistan must be leveraged to attract higher level of foreign and local direct investment. The government authorities, responsible for promoting investment and economic growth, should ensure additional simplification in regulatory procedures and processes to become more competitive with regional economies.

- The responses also include serious negativity in respect of some important aspects of doing business. As mentioned earlier, the perception regarding 'Repatriation of profit' has shown the largest decline and mainly reflects concerns of members in the recent phenomena of unusually long delays in processing of repatriation of dividends and other non-import based payments by the State Bank of Pakistan, since laws relating to profit repatriation are considered liberal and foreign investor-friendly. Other aspects of business showing a drop in rating include 'Tax refunds' and 'Contract enforcement'.

- The OICCI members have once again highlighted the delay in settling tax refunds and delay in resolution of issues with federal and provincial governments and regulatory bodies as serious challenges in doing business in Pakistan. These two issues remain major irritants to businesses, as can be noted by 83% and 68% of respondents giving "Poor" rating to these aspects of doing business. In addition, more than 40% respondents have given "Poor" rating to 'Process of fulfilling tax requirements', 'Consistent availability of utilities' (despite the improvement in rating mentioned in the very beginning), 'Level playing field', 'Clarity/fairness of laws and regulations' (although there is some improvement as compared to the perceptions in 2015), 'Contract enforcement' and 'Protection of IPR'.

- Delay in settlement of tax refunds and lengthy procedures for complying with various federal and provincial tax regulations, including those on withholding tax, are serious irritants and contribute to increasing cost of doing business.

- Maximum percentage of respondents have given "Neutral" rating to 'Labour Market Regulations'.

Key positive and negative aspects of operating in Pakistan

- Respondents further identified the following as key positive factors of operating in Pakistan; constantly growing consumer market (particularly due to the expanding middle class and higher purchasing power), favorable economic conditions, advancement in technology and growing economy (especially after the CPEC projects). Some companies also feel that the governance is getting better in Pakistan, owing to the better reforms and legislations being introduced by the authorities, like Companies Act 2017.

- For the negative aspects, an overwhelming majority was of the view that taxation issues were highly complex in Pakistan, mainly due to the high tax rates and increasing new tax burdens on the compliant sector, cumbersome procedures and lengthy timeline for tax filing and tax refunds. The second major issue identified was the poor regulation and ineffective implementation of policies and resolution of issues, followed by complex, inconsistent and ineffective policies. Security concerns, undocumented economy, availability of counterfeits, low smartphone / internet penetration, high competition and some sector-specific issues, like low ARPU for the telecom sector, were also highlighted.

Business Risk in Pakistan

The marginal increase in "High" and "Medium" risk by 4% each is somewhat surprising and in conflict with responses elsewhere in this survey as well as other surveys, like the annual OICCI Security Survey, where respondents have indicated improvements. Perhaps the uncertain political climate at the time of the survey, as well as lack of consistency in policies, like taxation policies, seem to have had an overhang in the responses here. Policymakers should take note and devise a policy framework to mitigate, at least, the risks and boost the confidence of the current investors, as well as, the potential foreign investors planning to enter Pakistan.

Notwithstanding the above, 71% of OICCI members perceive only "Medium" risk to their respective businesses in Pakistan, which again re-enforces the belief that the OICCI members belonging to 35 countries and operating in Pakistan for many years have much better understanding of the risk and reward of investing in Pakistan.

Sector wise responses are evenly divided between high and medium risk levels. The low risk classification is mainly given by some of the respondents from the IT & Communication and Chemical sectors.

Figure 4(a): Business Risk in Pakistan

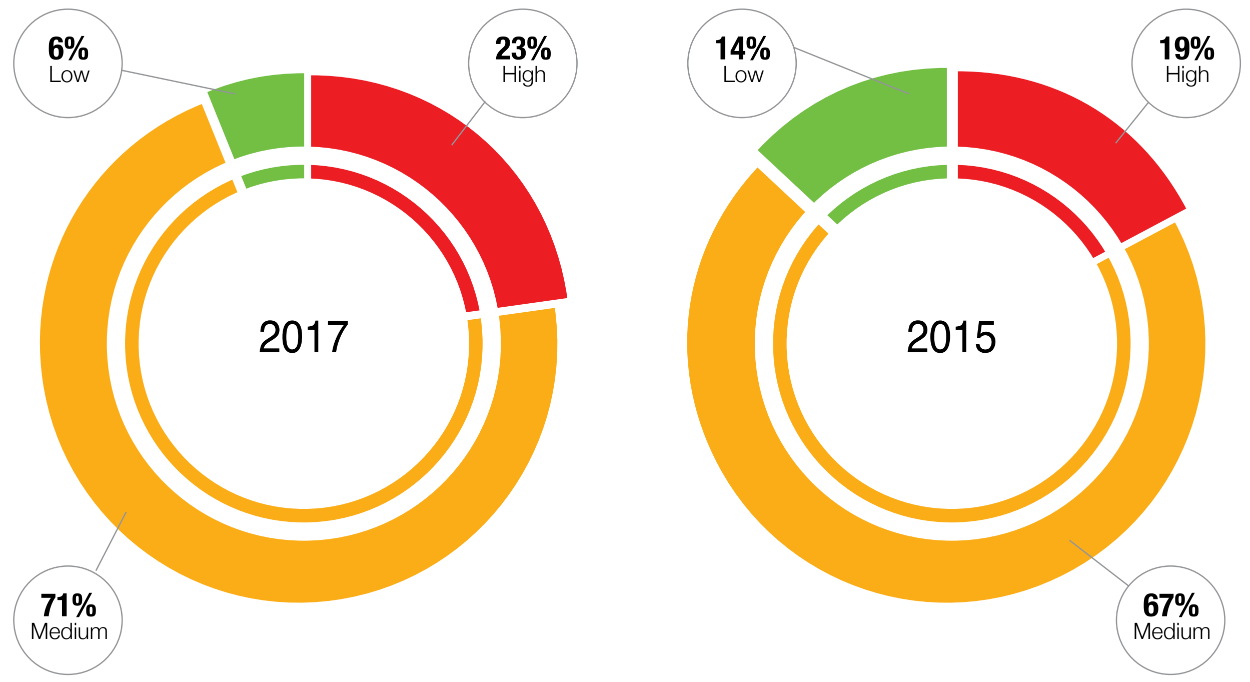
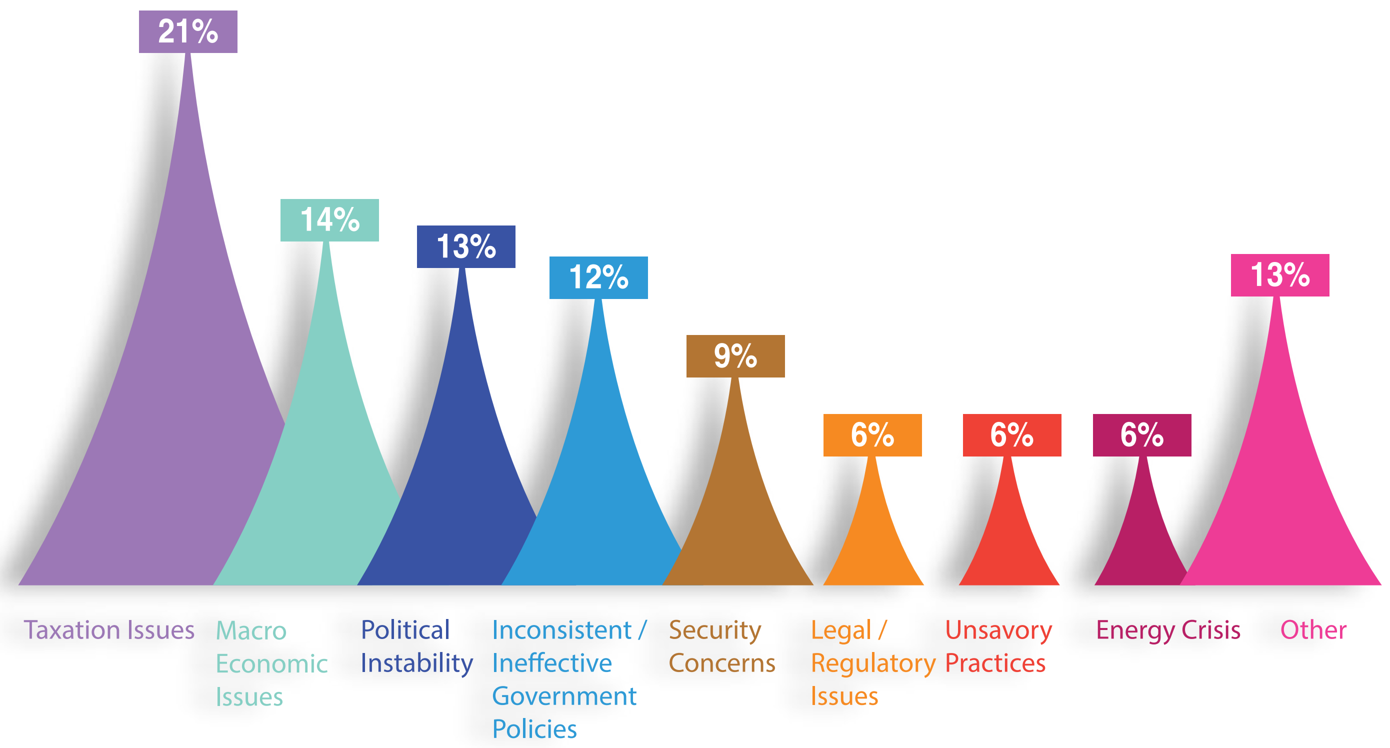


Figure 4b: Important Business Risks Identified



Overall, the major risks identified by the OICCI members are taxation issues and policies, macro-economic issues, political instability, inconsistent and ineffective government policies and security concerns in Pakistan. Among the macro-economic risks, the main concern relates to exchange rate fluctuations, specifically Pak Rupee devaluation.

Unsurprisingly, the members feel that laws are not effectively implemented and regulated in Pakistan. In several cases, these policies/laws are not even consistent. Risk of political instability includes members' perception that the unequal distribution of power among different provinces contributes to this risk. Despite improvements in the overall security, law and order situation, security concerns continue to be identified pivotal in forming poor perception of Pakistan amongst the headquarters/regional offices of foreign investors.

Some of the risks pertain to specific business sectors. A number of companies belonging to the Consumer and Healthcare sectors have identified counterfeiting, illegal imports and dumping of cheaper imported products as major risks to their businesses.

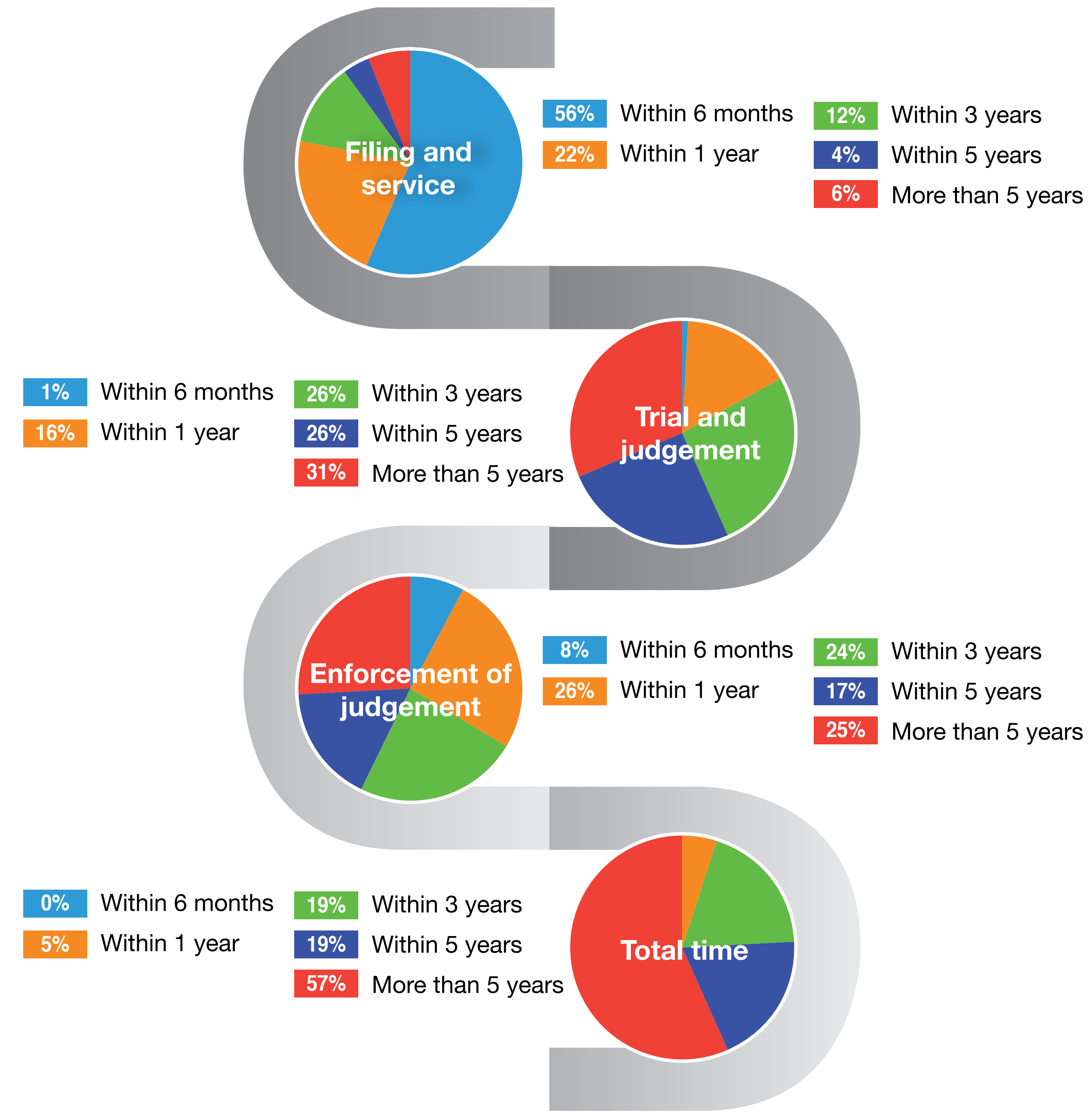
Pharmaceutical companies have mentioned over-regulation, rigid registration policies, price controls impacting profitability and difficulty in outsourcing manufacturing to a third party as risks.

Financial sector organizations have mentioned anti-money laundering and other unsavory business practices as major risks, particularly due to undocumented economy. Legal and credit risks are also important risks identified by this sector.

The telecom sector has identified exorbitant taxes, as well as complex and frequently changing taxation structure as particularly cumbersome.

Contract Enforcement

Figure 5: Average time taken to resolve a standardized commercial dispute through the courts



- Over half the respondents have mentioned that the average time consumed for resolving commercial disputes is over 5 years, and nearly one-fifth respondents informed that it takes 3 to 5 years. This is quite a long time, especially since members have reported some litigations are still pending after more than 15 years.
- The protracted time taken for the litigation process obviously leads to high legal costs, especially, when combined with the average cost incurred for the resolution of a standardized commercial dispute coming to approximately 20% of the claim value. The long delays in settlement of disputes in courts together with increased cost of litigation may be one of the key impediments in attracting FDI in the country.

Tax Refunds

- More than 25% of the OICCI members have indicated that they are negatively impacted by long delays in tax refunds, and it continues to be the most significant issue for the members concerned as this matter is voiced by members several times more often than any other issue. Unfortunately, this does not seem to be a priority concern either for the FBR or the Ministry of Finance, despite the serious consequences of the delays on the confidence level of foreign investors. Despite regular interactions with the authorities to speed up the tax refunds process by the OICCI and by the concerned members, the timelines for settlement of tax refunds have actually become worse. 97% of the impacted respondents reported that settlement of tax refunds takes over one year, out of which 84% indicated delay of over two years, whereas, in the last survey 82% reported delays of more than a year. The additional bottlenecks created after the enactment of the provincial revenue boards continue to pose serious challenges for nearly all OICCI members as issues of coordination between the various revenue boards have still not been resolved.

- The total amount of refunds at any given point in time, during the last couple of years, is less than 5% of the annual taxes paid by the OICCI members, who contribute over one-third of the total annual revenues collected by the federal and provincial governments.

- Almost one-fourth of the respondents reported that they have been approached for unethical payments related to tax refunds, the same percentage as in the 2015 survey. This state of affairs needs to be addressed, as it has very negative impact on the country, and is more or less in line with unsavory practices mentioned in another part of this survey.

Key Taxation Issues

- For majority of the respondents, the key taxation issues are; delays in tax refunds, high tax rates and complex tax regime, imposition of Super Tax, the lack of coordination between federal and provincial tax authorities and the complex withholding tax regime.

- Some respondents mentioned issues like high cost of tax compliance, uncertain and unpredictable tax policies, un-level playing field and exploitation of the taxpayers due to narrow tax base, as some of the issues being faced by them.

Figure 6(a): Timelines for settlements of tax refunds

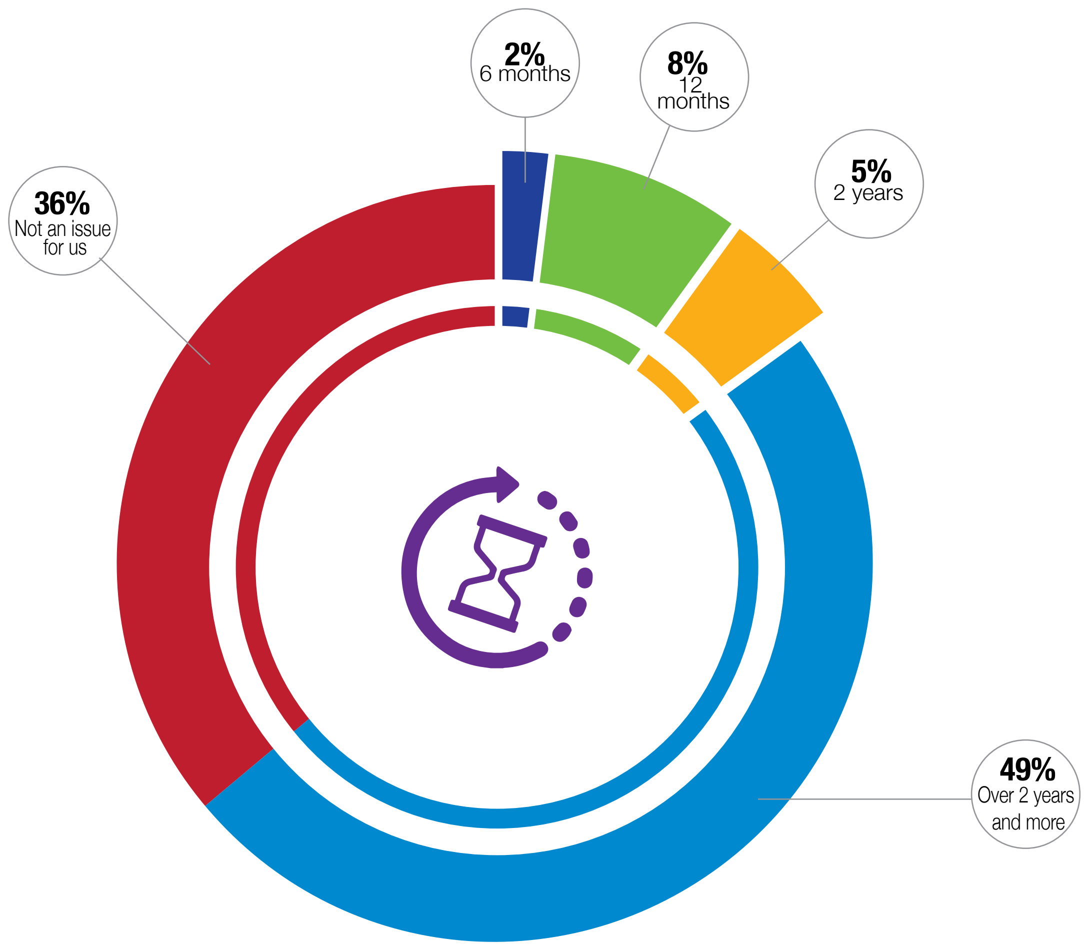
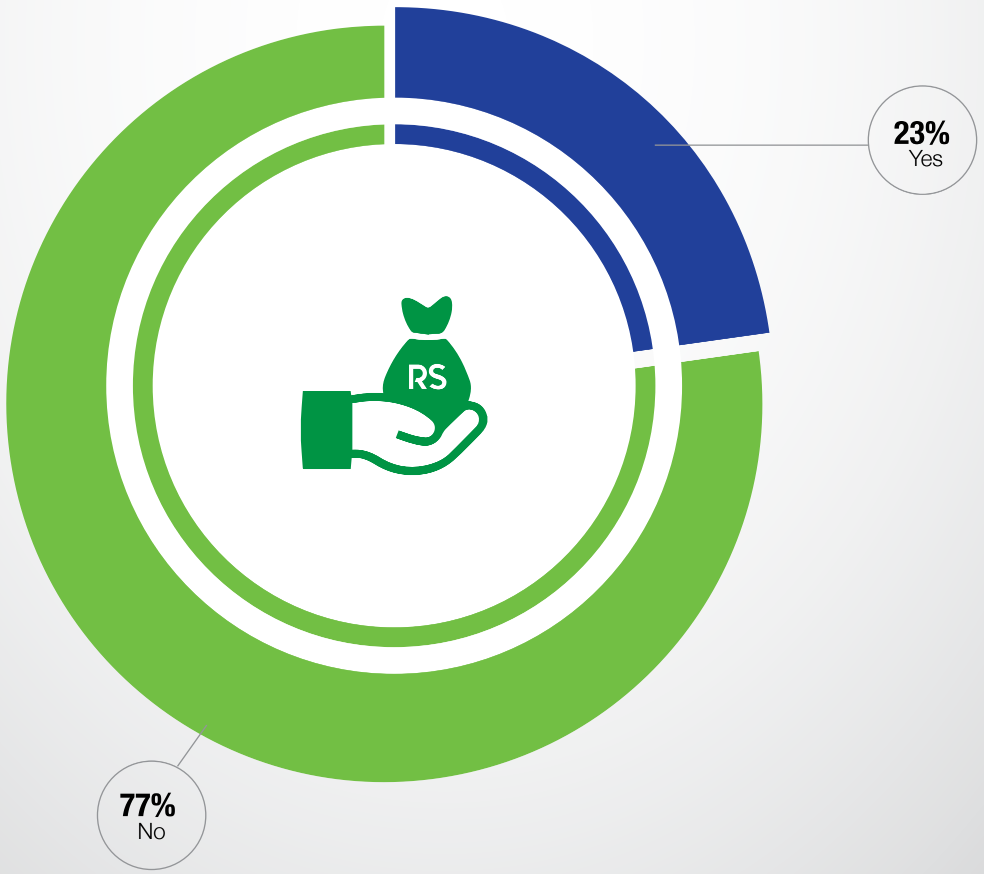


Figure 6(b): Unethical approaches for expediting tax refunds



Section II:

Top Challenges

The most significant point to be noted here is that "Energy shortage", which was ranked as second biggest challenge in the 2015 survey, has dropped out of the five biggest challenges impacting OICCI members. Given the government's focus on energy and addition of significant quantity of Megawatts to the country's energy grid, leading to noticeable reduction in load-shedding and respondents' high expectation from ongoing CPEC projects, the exit of the energy issue from the list is not surprising.

Likewise, the improvement in the security, law and order environment all over the country, and especially in Karachi, where the majority of our members have their head offices, has also been noted by OICCI members and this challenge has gone down two steps to number three. This is, nevertheless, still a high ranking and indicates that the respondents remain uncertain of the sustainability of the improved security situation.

The two biggest challenges identified by the respondents in the 2017 survey are also not surprising considering the consistently voiced concerns of OICCI members in respect of 'Increasing tax burden' on the tax compliant sector and lack of an institutionalized 'Policy Implementation' regime in the country. Almost 30% of the respondents have ranked both these challenges in either position 1 or 2.

The elevation of 'Increasing tax burden' to number one ranking is no doubt on account of a combination of several concerns for the respondents, who are all compliant taxpayers. These include a) slow or no progress in fully implementing the report of the Tax Reforms Commission, b) no major steps taken for broadening the tax base, c) sudden announcements of new tax measures on compliant taxpayers, especially the new 3-4% "Super Tax" introduced in the Federal Finance Act 2015-16, and which has continued for the last three consecutive years, d) additional items added to the taxes on services charged by the provincial revenue boards and e) lack of seamless coordination between the federal and provincial revenue authorities creating confusion and uncertainty for taxpayers.

Similarly, the policy implementation/governance issues remain an area of serious concern, despite the current political leadership, both at the federal level and in the provinces, scoring improved ratings, as compared to 2015, elsewhere in this survey report. The OICCI members' feedback reflects continuing disappointment on the lack of visible initiative or improvement in this area. The OICCI has been consistently urging the authorities to pay serious attention to robust policy implementation supported by a strong accountability mechanism to boost the confidence of investors in Pakistan.

Figure 7(a): Top Challenges in 2017

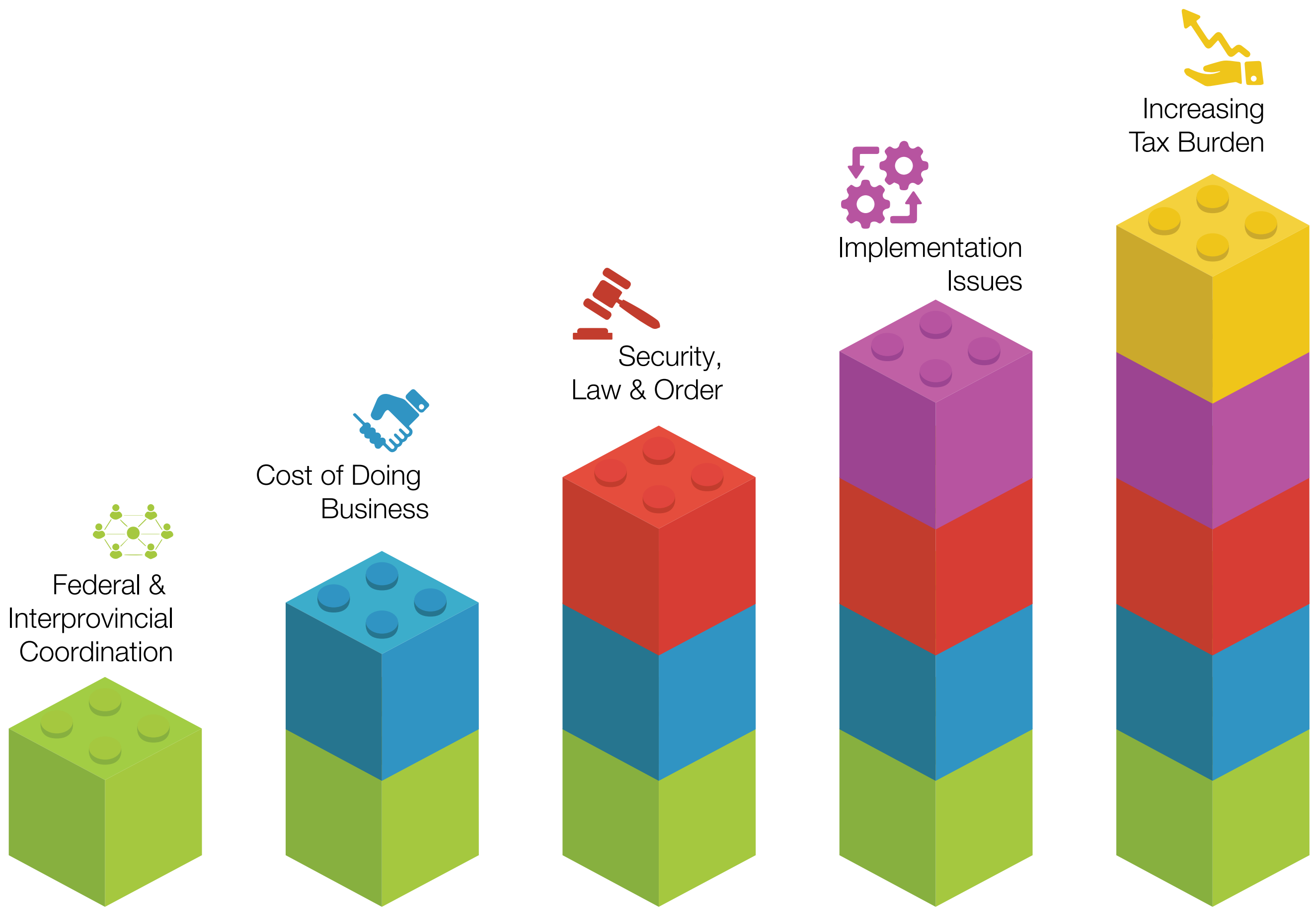
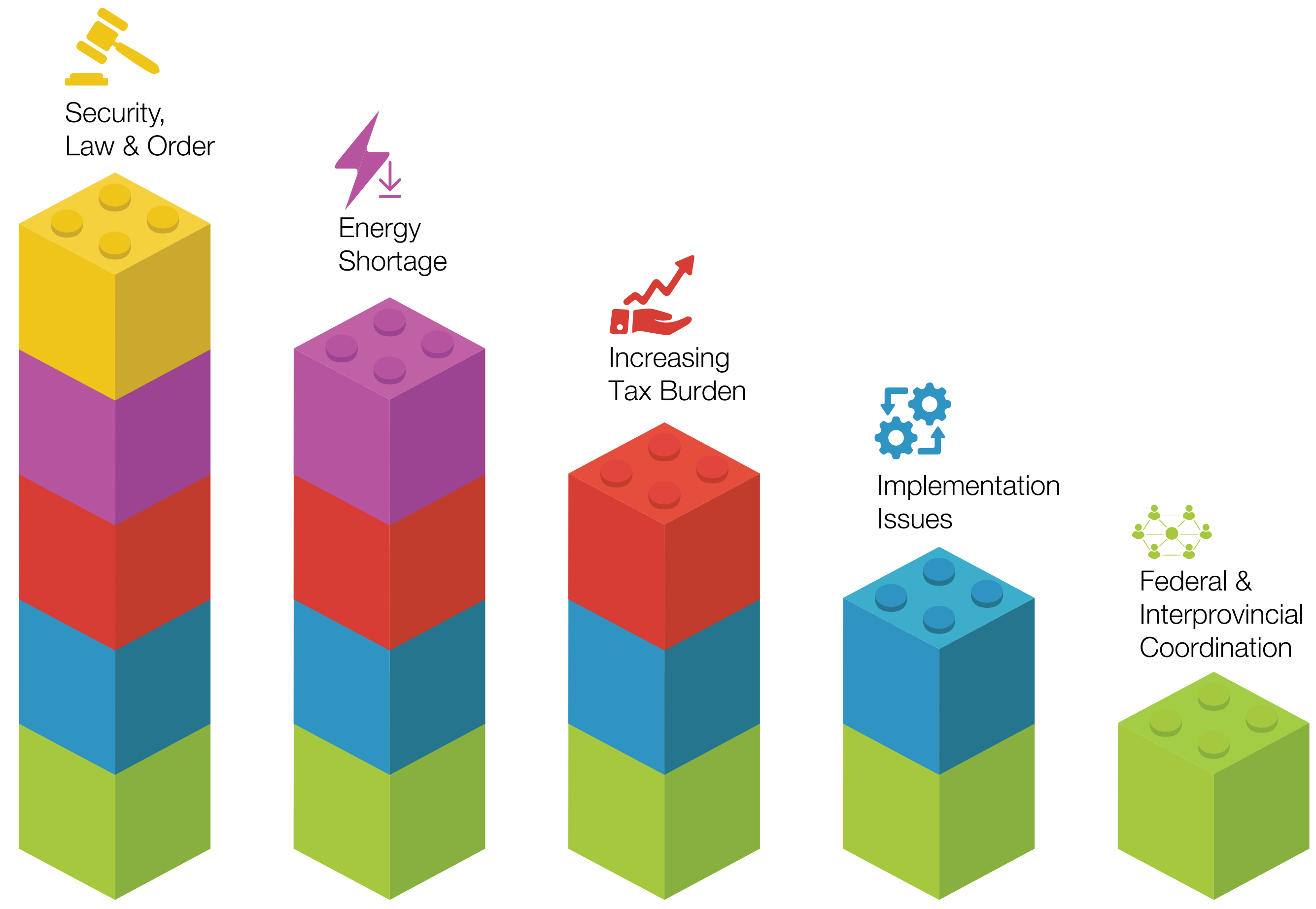
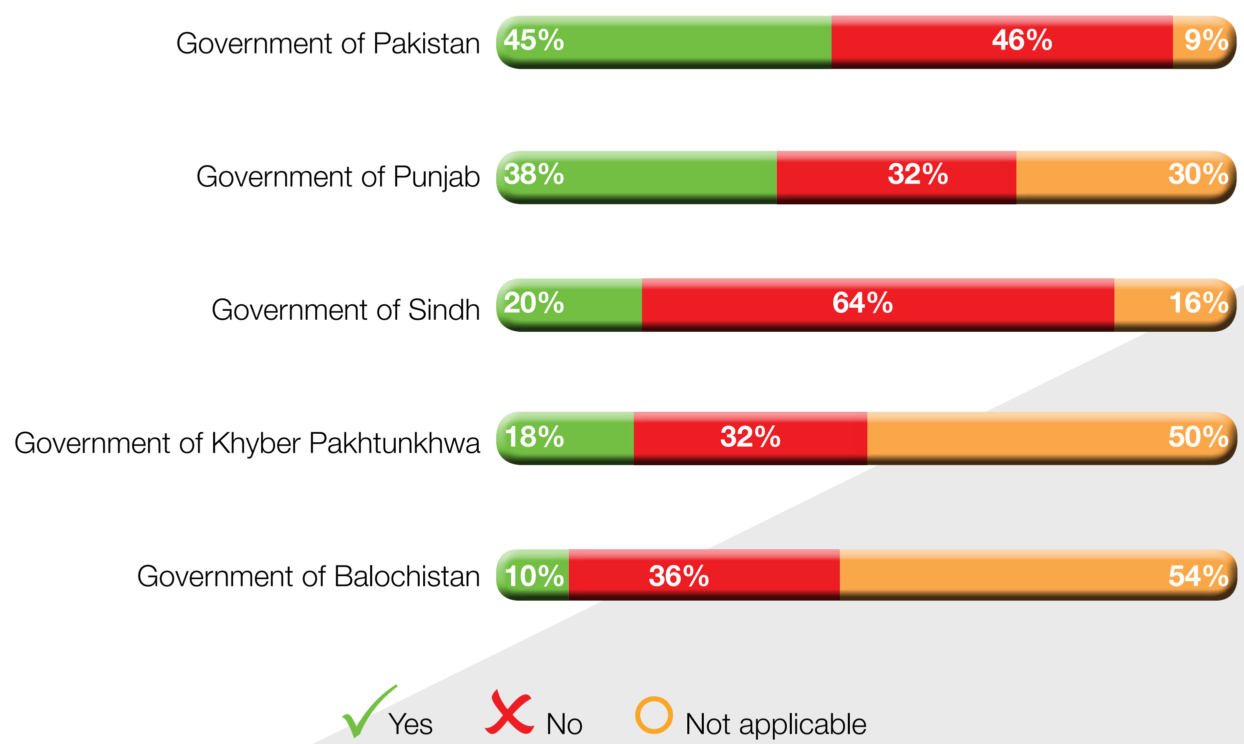


Figure 7(b): Comparative Responses in 2015



Section III: Governance

Figure 8(a): Members' feedback on whether the federal and provincial governments engage with key stakeholders in taking major decisions on matters affecting the foreign investors



Government Policies

Nearly half the respondents have expressed reservations on the federal government taking major policy decisions affecting trade and industry without any meaningful engagement with key stakeholders. Only the Punjab government gets a reasonably good rating in this major area of concern for businesses. Sindh province, where over 75% of our members are based, has received the highest negative feedback on this measure which needs to be addressed on priority basis by the concerned authorities.

However, on the positive side, there is an improvement in the responses in comparison with the last survey in 2015, as more members have marked "Yes" regarding the question on whether the federal and provincial governments engage with key stakeholders in taking major decisions on matters affecting the foreign investors with the Government of Punjab recording the highest improvement in this respect. Nevertheless, the responses clearly depict the poor actual experiences of the members in dealing with the federal and provincial governments and their perceptions on various matters like issues of governance, easy access to policymakers, taxation system focused on organized sector, (surprises and ad-hoc actions – damaging confidence in the system), gap in investment incentives and policy implementation, enforcement of Intellectual Property Rights, too many regulators and increasing regulations, strictly controlled pharmaceutical sector, long delays in settlement of outstanding Income/Sales tax refunds, etc. The reality and perception of the business entities dealings with the federal and provincial governments are also reflected in Pakistan's low ranking on World Bank's Ease of Doing Business (EODB) survey.

Figure 8(b): Comparative responses in 2015

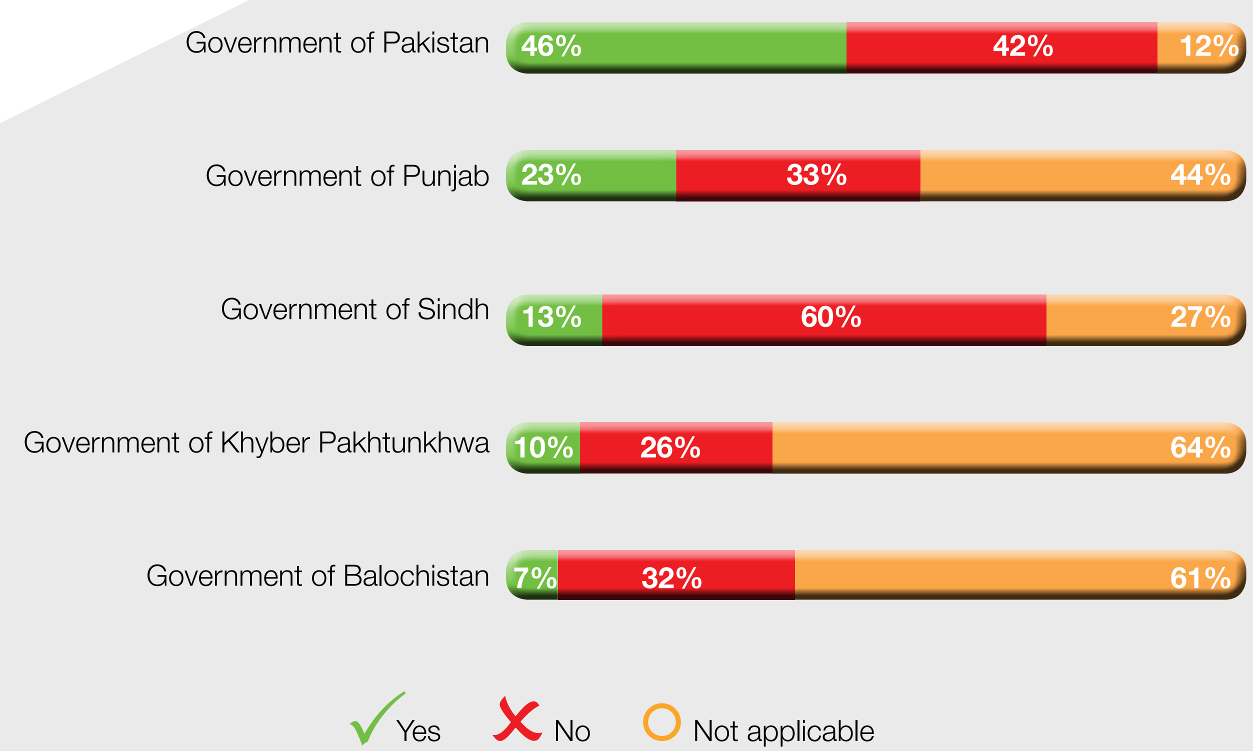
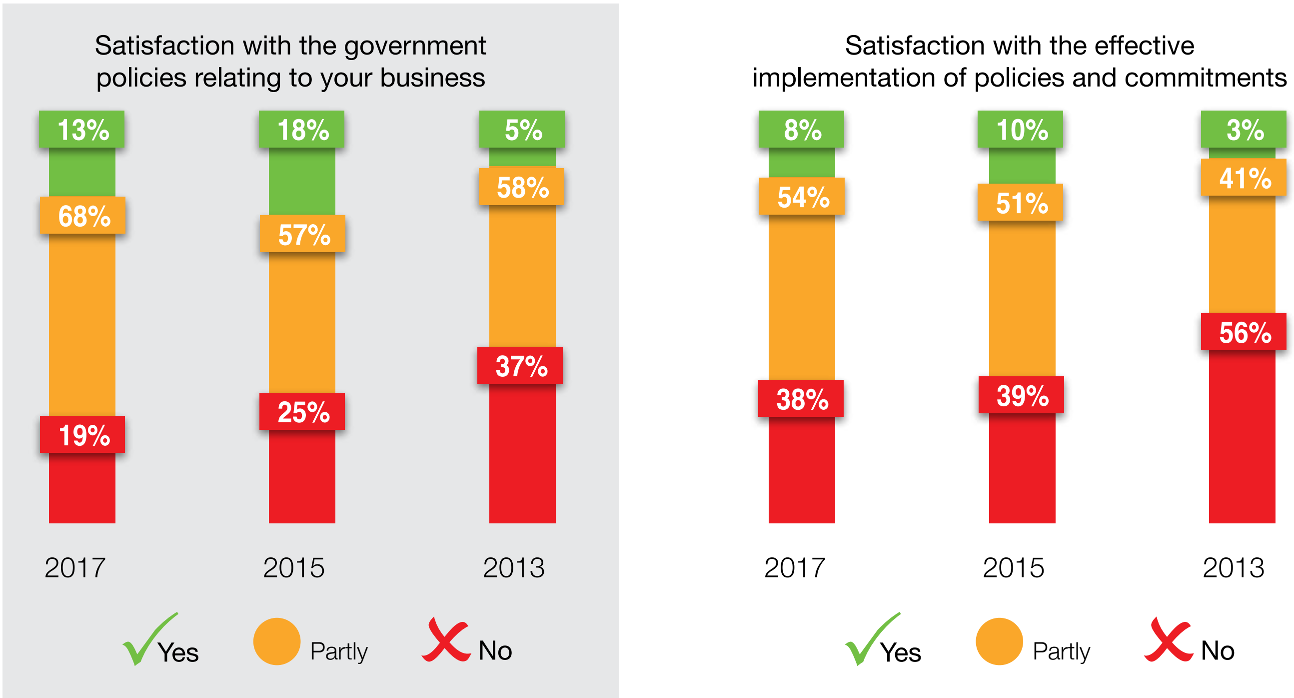


Figure 9: Satisfaction with Government Policies



Members have once again shown more concern with policy implementation than with policy itself. Compared to previous two surveys, the satisfaction levels, for both policies and the implementation of these policies, have marginally improved.

Figure 10(a): Experience with GOP functionaries in relation to key issues facing investors

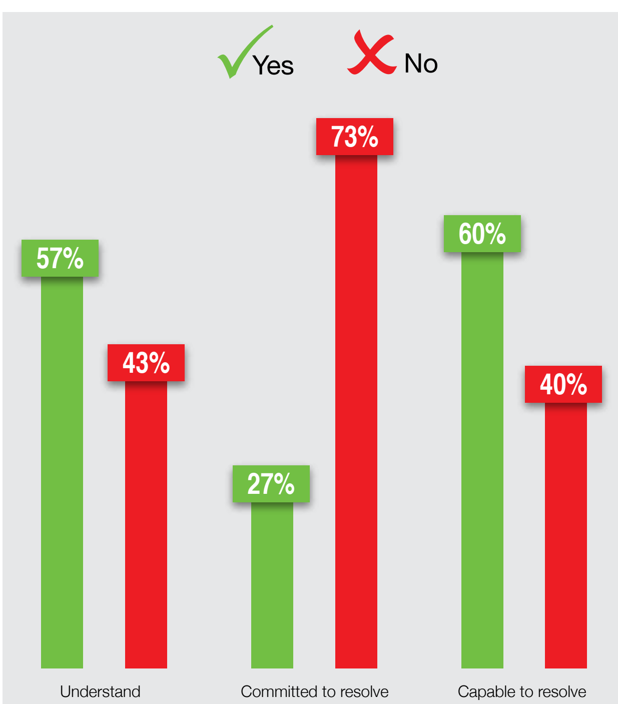
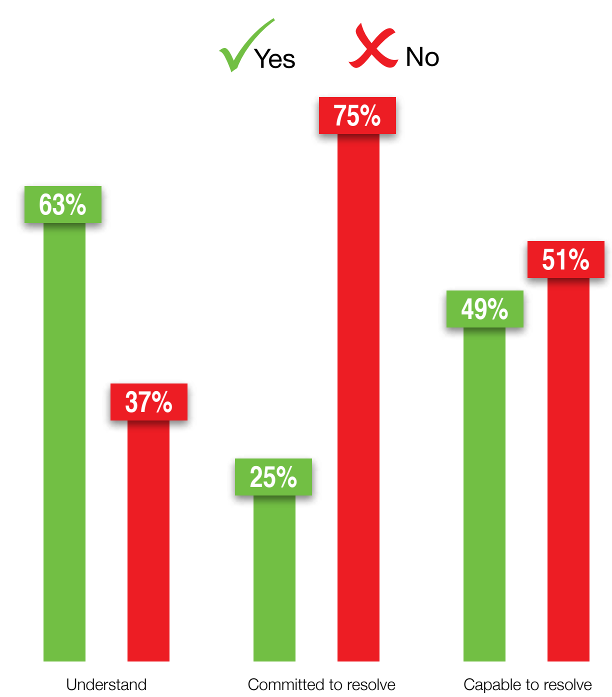
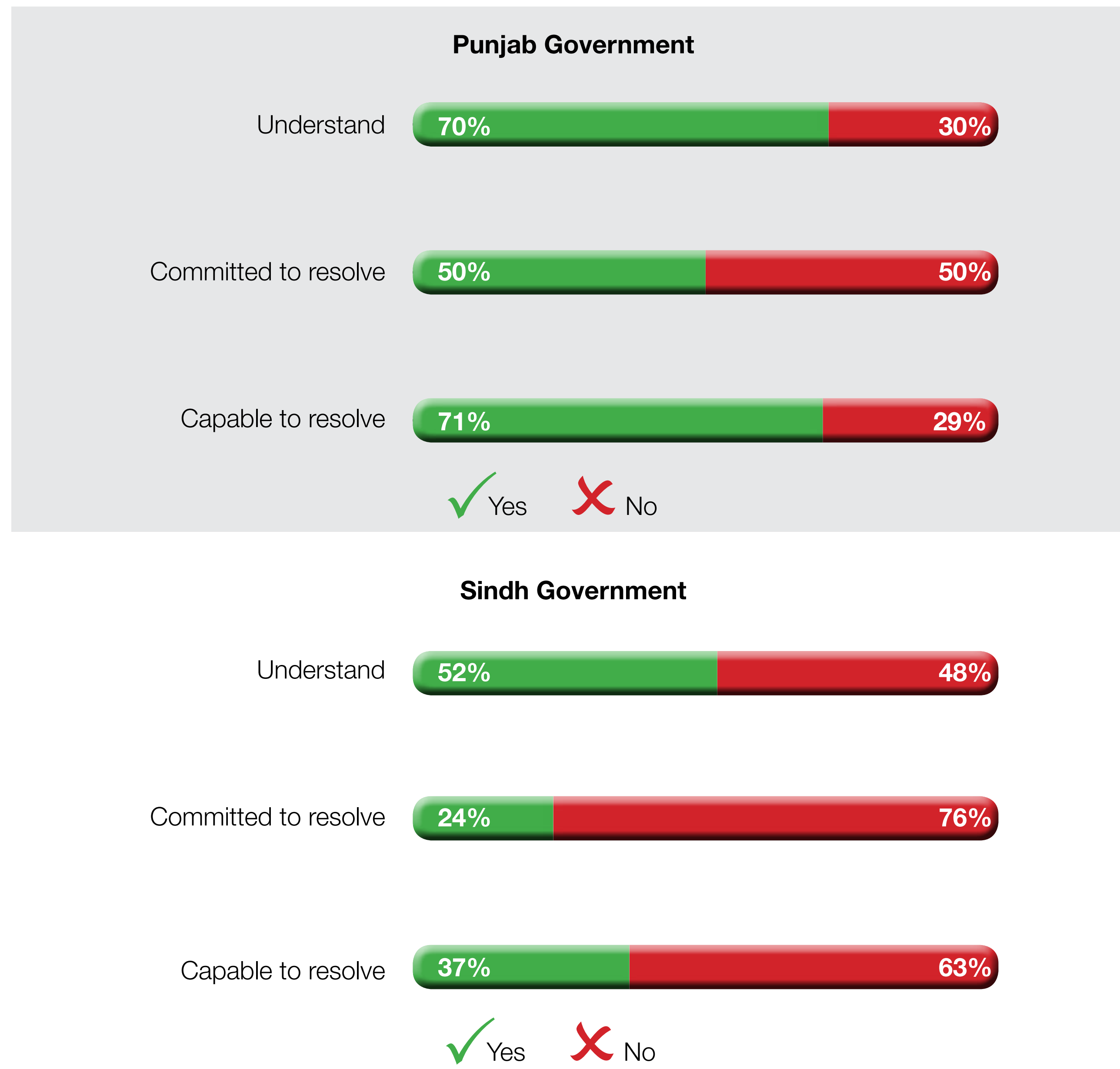


Figure 10(b): Comparative responses in 2015



There is a cause for concern for the government as only 57% of the respondents feel that the government understands the key issues faced by the business community, a drop of 6% versus the 2015 survey (63%). The good news is that 60% of the respondents believe that the government is capable of resolving issues of investors, which is an 11% increase as compared to the 2015 survey. However, this improvement is blotted as only 27% respondents feel that the government is committed to resolving these issues. The responses indicate that the government does not have the complete investors' confidence, which is not a good sign and should be an area of concern for all the key government functionaries.

Figure 11: Members' Experiences with the Punjab / Sindh Provincial Governments



The responses to all the three questions clearly show that the Punjab government has been rated substantially better than the Sindh government, or even the Federal government. However, the perceptions regarding the Punjab government also indicate the wide gap between understanding the key issues or being capable of resolving these issues, and having the commitment to resolve the issues. This gap is also reflected in the views regarding the Sindh government, where the capability of the Sindh government is perceived rather poorly.

Decline in Investment, Including New Foreign Direct Investment (FDI)

As in the last survey in 2015, respondents have once again identified security concerns as the single biggest factor for decline of investment/foreign direct investment (FDI), during the past few years. This is most surprising given the fact that the same respondent base has acknowledged the significant improvement in security, law and order situation in the last three annual OICCI Security Surveys. As stated elsewhere in this report, it seems clear that foreign investors are still not convinced regarding sustainability of the improved security environment, that there would be no let-up in the security improvement drive. 'Poor Perception of Pakistan' has moved up as the second biggest factor (versus number three in the 2015 survey) and 'Increasing tax burden on compliant taxpayers' is now identified as the third biggest factor (versus number five in the 2015 survey) impeding investment. Other reasons cited by the respondents include 'Inconsistency and unpredictability of various policy measures', 'Energy shortage' (which has dropped down considerably as compared to the last survey, when it was identified as the second biggest challenge, due to the government's strong focus on this aspect leading to increase in the quantity of Megawatts in the power sector), 'Corruption and unethical business practices' (which is a new addition and may be a consequence of the Panama case related aspects on the minds of the respondents), 'Gap in policies/incentives and its implementation', 'Lack of timely access to decision makers', 'High cost of doing business', 'Lack of clarity regarding investment policies of the country versus FTA benefits', 'Lack of proper infrastructure – logistics, etc.', 'Interprovincial coordination issues' and 'Insufficient protection of Intellectual Property Rights'.

The OICCI is aware that the government, and the institutions working under the government, have, over the last four years, taken a number of initiatives to improve the security, law and order situation and, based on regular interaction of the chamber with the relevant authorities, it can safely be stated that there would be no let-up in the security improvement drive and that the government will further strengthen the successes already achieved on this important aspect for investors.

Though the government has managed to bridge the energy supply and demand gap through various new projects which are already operational and some in the pipeline, about to be completed, there is strong need to improve international perception of Pakistan which is, by and large, worse than the reality, which has also been highlighted above. Besides, the broadening of the tax base with a corresponding reduction of the tax burden on the existing compliant taxpayers, there is need to improve infrastructure in commercial and industrial centers of the country on top priority basis.

Figure 12(a): Factors identified for decline in investment 2017

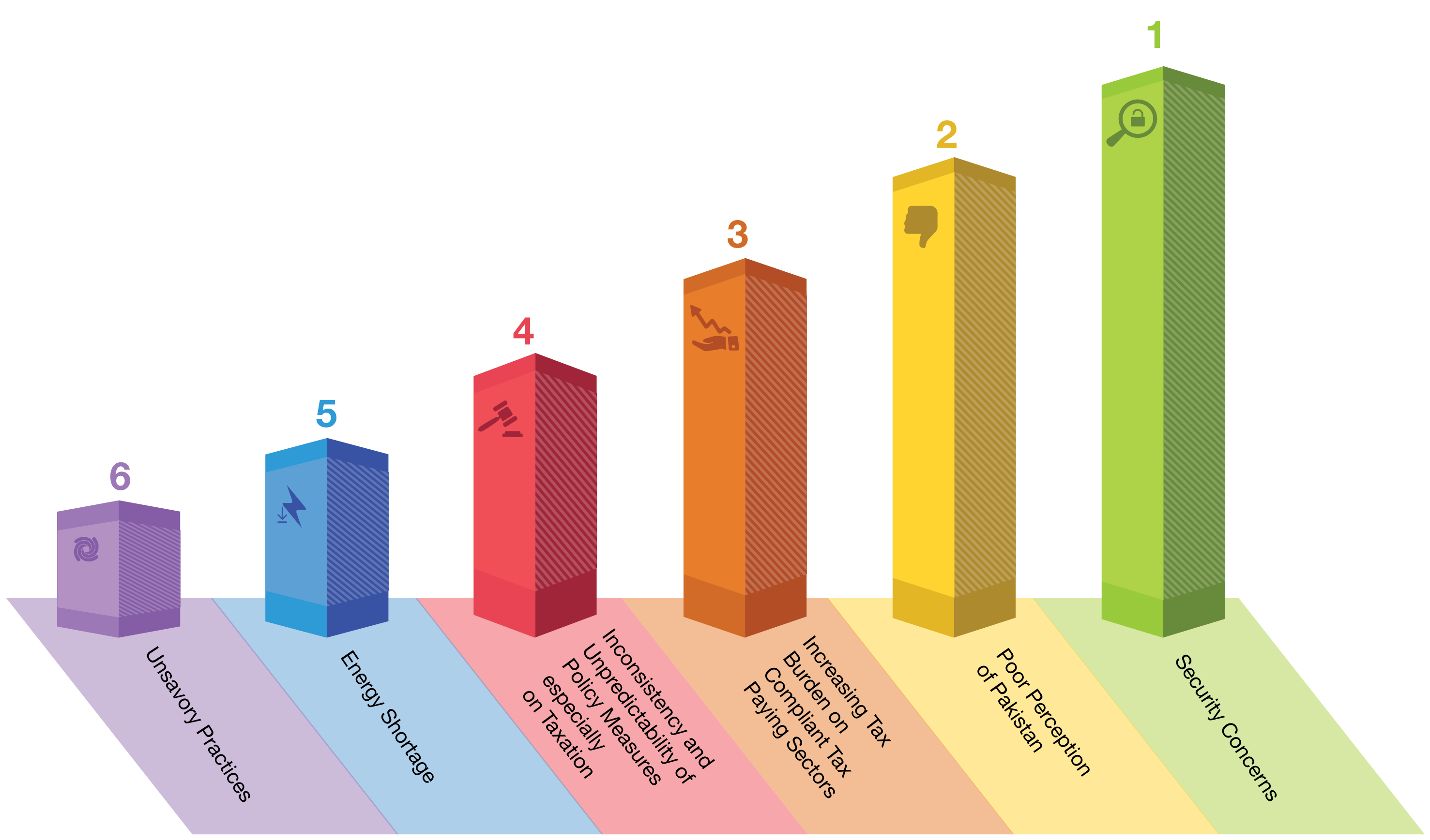
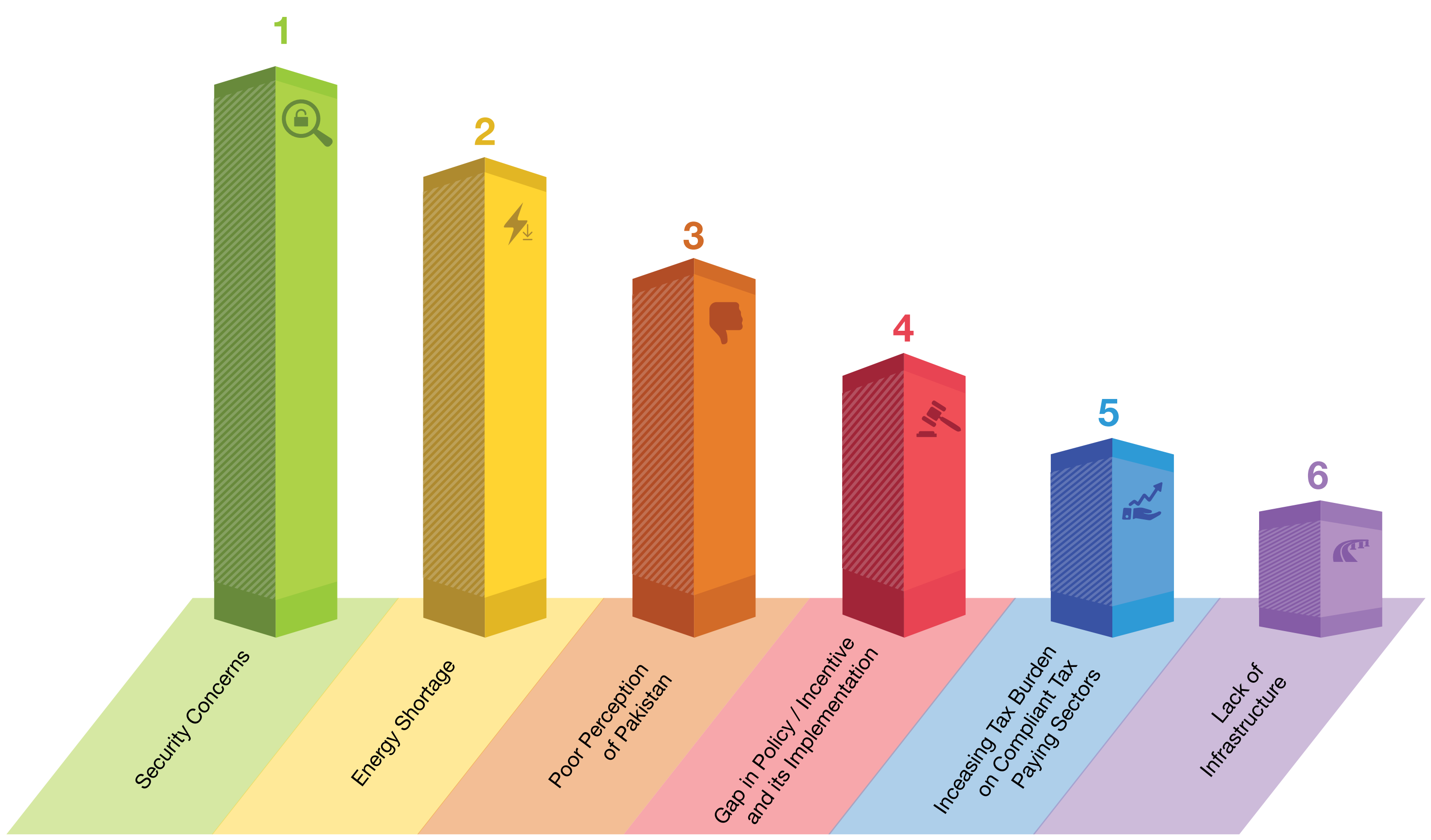


Figure 12(b): Comparative Responses in 2015



Respondents have also given suggestions for improvement of the investment climate in Pakistan, based on lessons learnt or initiatives taken by their respective associated companies in the region, which include the following:

- Make regulatory approvals swift
- Devise long term and consistent policies
- Improve tax and fiscal measures by providing transparency and consistent implementation
- Benchmark tax rates against regional competitors
- Make procedures for tax concessions on investment simpler
- Reduce the number of taxes
- Adopt speedy measures for documentation of the economy

- Build image of Pakistan in international media by obtaining slots in international channels for Pakistan Business Updates, as currently being done by India, ME and Africa in BBC and CNN
- Create Special Economic Zones with complete infrastructure
- Reduce turnaround time for addressing concerns of MNCs in the country
- Reduce controls over foreign currency remittances
- Make effective and fully empowered regulatory authorities

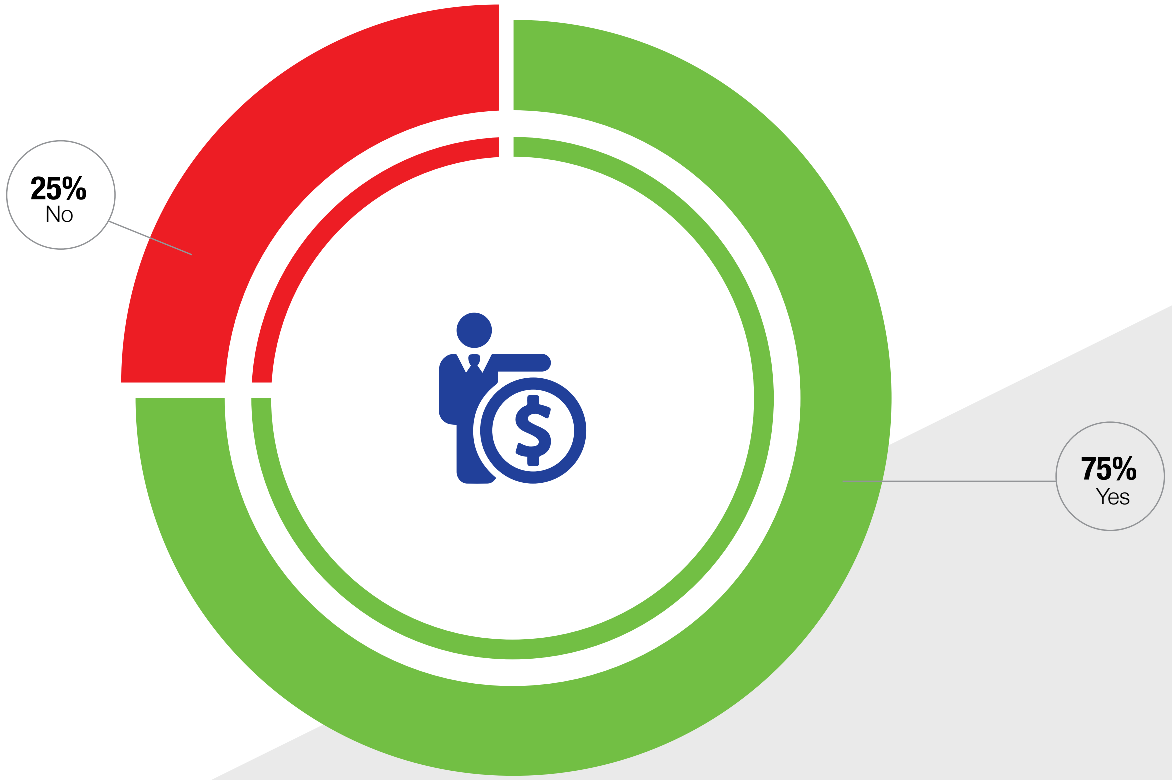
- Revisit investment related policies and make all the policies simple and investor-friendly
- Consider IT industry as a revenue generating and growing industry
- Dedicate a special team to understand the IT business, presently outsourced from the developed countries to India and other countries in the Far-East
- Make one window solutions for all regulatory enforcements related to taxes, environment, quality standards, etc.
- Take fast track measures to eliminate the energy crisis in the country
- Deregulate the drug prices

- Ensure capacity building and qualified leadership in government departments
- Devise transparent, clear and consistent policies without being impacted by the change of government
- Allow free float of Pakistani Rupee
- Improve infrastructure in respect of transportation, utilities and access to information
- Make the appointment of foreign directors less cumbersome and fast
- Enforce more stringent crackdown on channels for counterfeit and smuggled goods
- Widely circulate and propagate the narrative that despite all the issues Pakistan is a great place to invest by giving out OICCI snapshot of listed companies' performances

Investor Confidence

- After several years of decline in FDI inflow in Pakistan, dropping to a dismal US$ 709 million in fiscal year 2014-15, it has again started picking up with US$ 2.3 and 2.4 billion FDI received in the last two fiscal years, 2015-16 and 2016-17, respectively. This is mainly due to CPEC related investments as well as two major transactions which involved only shareholding change from local to foreign investors, with the prospects for new capacity additions and expansion in operations. Though these amounts are not very high, the upward trend in FDI is encouraging.

Figure 13(a): Willingness to recommend new FDI in Pakistan, based on the current business climate in 2017



The icing on this encouraging sign is provided by the respondents to this survey who, despite the various reservations, are of the considered opinion that there is a good potential for investment in Pakistan and 75% (4% minor drop versus the 2015 survey could be an aberration) of the respondents mentioned that they will continue to recommend new FDI in Pakistan. In fact, this positive response by OICCI members is supported by the increasing actual capital expenditure they have made in Pakistan, from their retained profits, over the last two years, which is mentioned elsewhere in this publication.

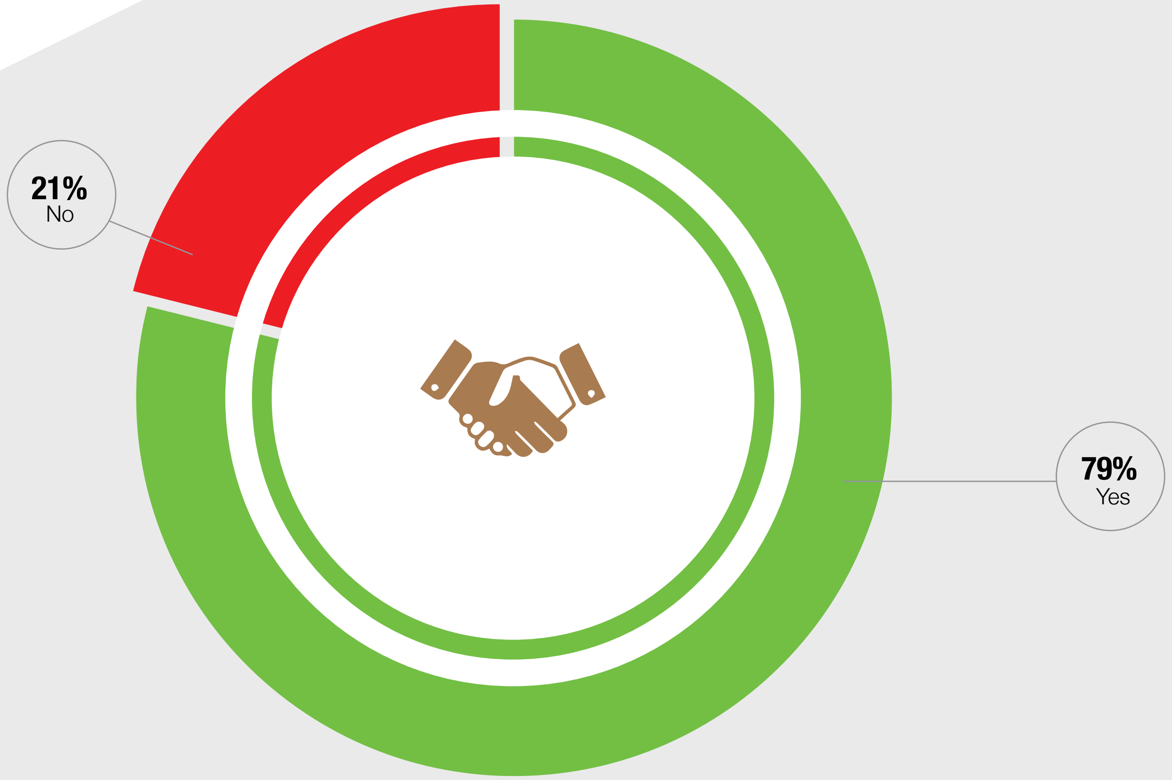
- The government should take a note of this positive mind-frame of foreign investors, who are already operating in Pakistan and, besides improving the ease of doing business, use the existing foreign investors as business ambassadors of the country for attracting new foreign direct investment.

- Foreign investors, overwhelmingly, favor a system of transparent accountability, timely corrective actions to address issues hampering investment and regular government and private business interaction/partnerships to improve the policy framework to tackle the current economic and administrative challenges with consensus of all stakeholders.

- In order to provide policy reforms and advocacy support to the government, all respondents strongly felt that the government should involve OICCI in policy and regulatory matters. The chamber's continuous engagement with the government for OICCI representation on various regulatory boards has resulted in OICCI being nominated on various bodies like the IPOP Policy Board, Tax Reforms Commission, Tax Advisory Committee, Broadening of Tax Base Committee and Ease of Doing Business Committee. However, there are many more forums especially in the area of Economic and Energy Management where OICCI input can be of great value to the authorities.

- The main issue from the respondents' perspective is the lack of effective and timely implementation of the recommendations made to the government and/or visibility of the corrective actions taken which is a pre-requisite to attract new and larger FDI.

Figure 13(b): Comparative Responses in 2015



Recommendations for improved governance and policy implementation by an institutionalized process to attract new FDI

- 98% of the respondents expect that policy framework could improve with regular interaction between the stakeholders and timely intervention and accountability by the government.

Impact of political environment on FDI

In view of the somewhat complex political environment in the country over the last few years, new questions have been introduced to determine the impact/importance of the political climate on members' future investment plans.

It seems that investors do keep a close watch on the country's political scene before taking major investment decisions. However, 87% respondents have indicated that their proposed investments have not been put on hold due to the upcoming elections in the country.

Figure 14(a): Impact of the political environment of the country on FDI decisions

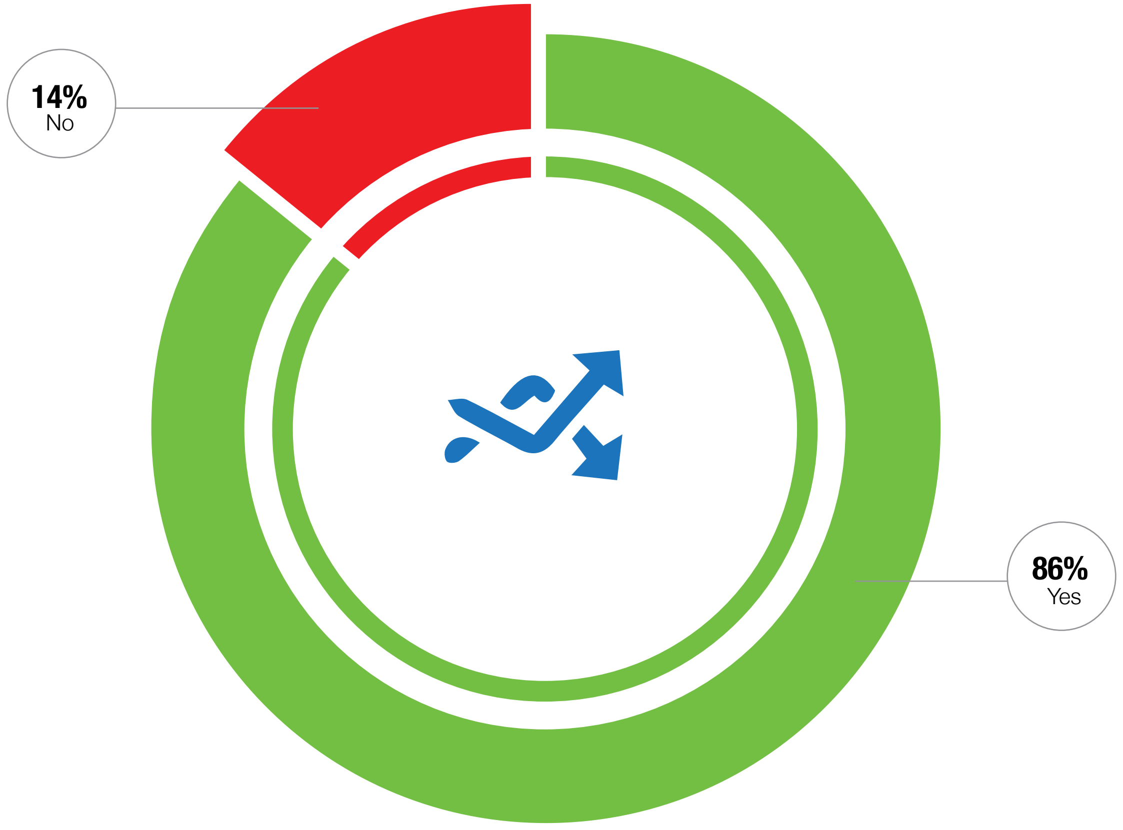


Figure 14(b): Degree of importance placed on political environment of the country

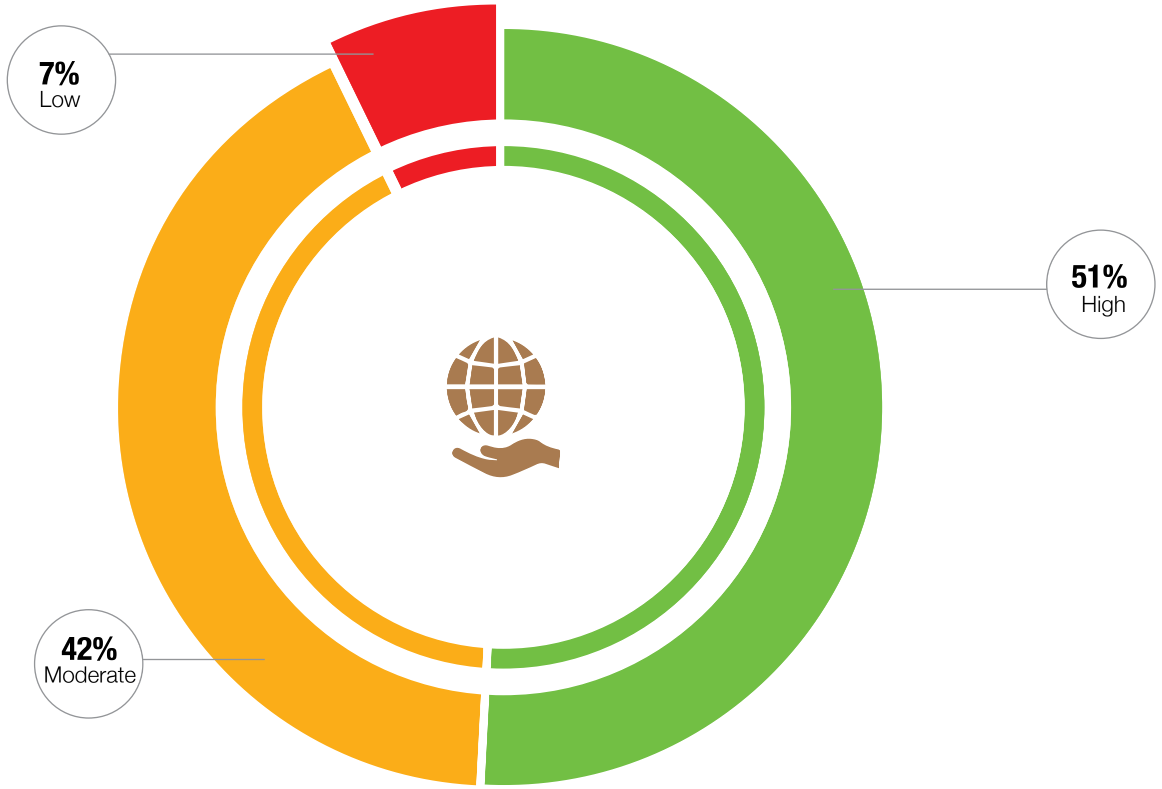
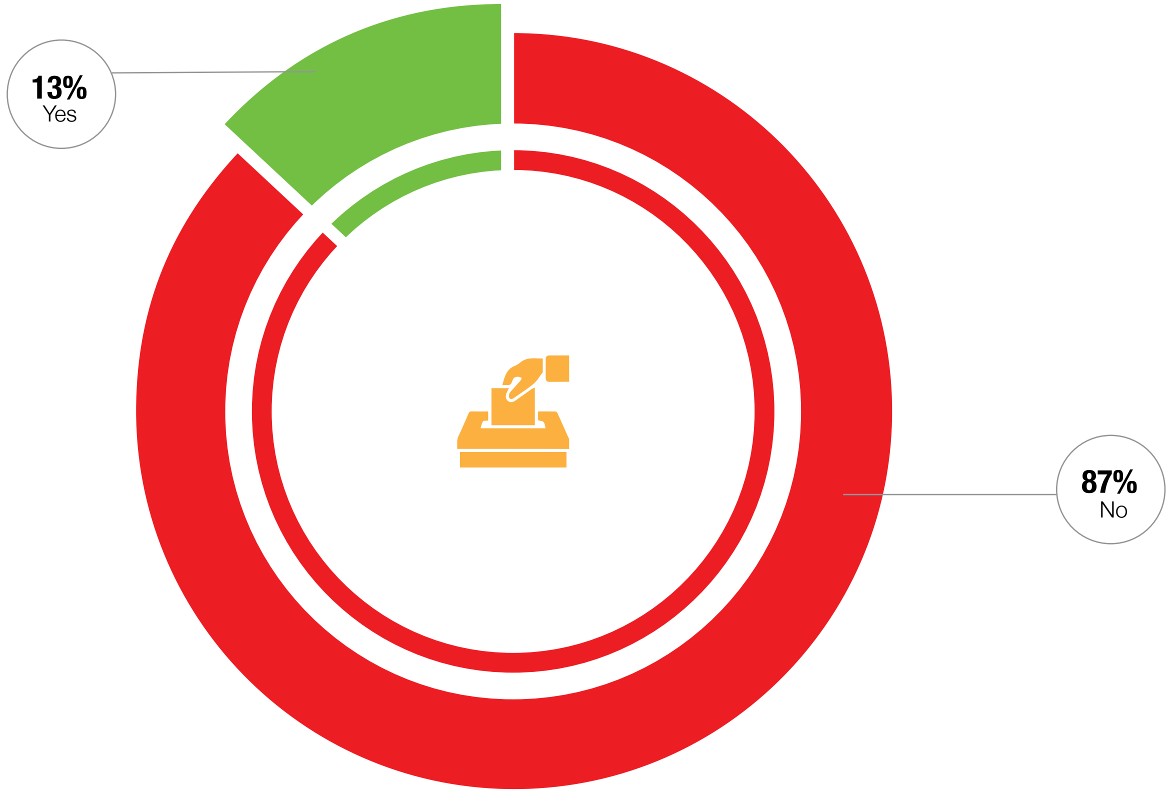


Figure 14(c): Decision to put investments on hold due to the upcoming Elections of 2018



Government Ministries and Regulatory Bodies

Performance of Federal Ministries

- Facilitating investors in the smooth running of their operations is a key role of the government and the regulatory bodies. The ministries, included in the survey, were considered relevant for our members based on the frequency of interaction. In addition to the federal government ministries, the perception about the four main provincial governments has also been included. This is on account of the role of the provinces, in matters impacting investment, trade and industry, increasing significantly after the 18th amendment to the constitution of Pakistan.

- The improvement in the rating of the Ministries of a) Petroleum and Natural Resources, b) Science and Technology, c) Industries and Production and d) Ministry of Water and Power as compared to the 2015 survey indicates that they have become more supportive for business entities.

- The focus of the government on energy and significant strides made by the sector in bridging the energy gap, since the last survey in 2015, is evident from members' responses, as 'Energy Shortage' is no more on the radar of investors as one of the top challenges, unlike the last two surveys in 2015 and 2013.

- The Ministry of Climate Change has recorded the biggest drop in rating as compared to 2015 and seems to be perceived as an unsupportive ministry.

- Though the perception regarding the Ministry of Finance has improved since the 2015 survey, it needs to pay attention to the fact that one-third of the respondents considered it to be unsupportive, which is the highest negative rating amongst all the ministries included in this survey. This is perhaps mainly due to the uncertain taxation policies and surprises like continuation of Super Tax for last three years, over burdening of honest taxpayers, lack of headway on tax reforms and broadening the tax base, continuing issues of coordination/ harmonization between central and provincial revenue boards and frustrations regarding timely processing of tax refunds, where the ministry is perceived as playing a key role.

- It is also interesting to note that the key ministries like Ministry of Commerce, Ministry of Planning and Development, Ministry of Interior and Ministry of Environment have been perceived less supportive as compared to 2015 survey.

- The top hierarchy from all those ministries whose ratings have dropped as compared to the last survey or are relatively considered unsupportive, need to maintain a closer engagement with the chamber and its members to address the issues leading to an "unsupportive" image of their respective ministries.

- Both Punjab and Khyber Pakhtunkhwa have been given relatively good ratings, which have improved as compared to 2015 survey, when combining the supportive and neutral responses. However, ratings for Sindh continue to be quite negative and have even dropped as compared to the 2015 survey. Since the majority of OICCI members have their registered offices in Sindh, the provincial government needs to take note as not only the existing investors are impacted but even potential new investors will be alerted by this negativity. The government of Balochistan should also be concerned with the foreign investors' feedback.

- The above feedback is based on OICCI members' interactions with the various government authorities over the last two years.

- It may also be noted that overall the highest ratings were in the neutral column, which does not seem to reflect a very positive view of the respective ministries and provinces from the members perspective.

Figure 15(a): Responses in 2017

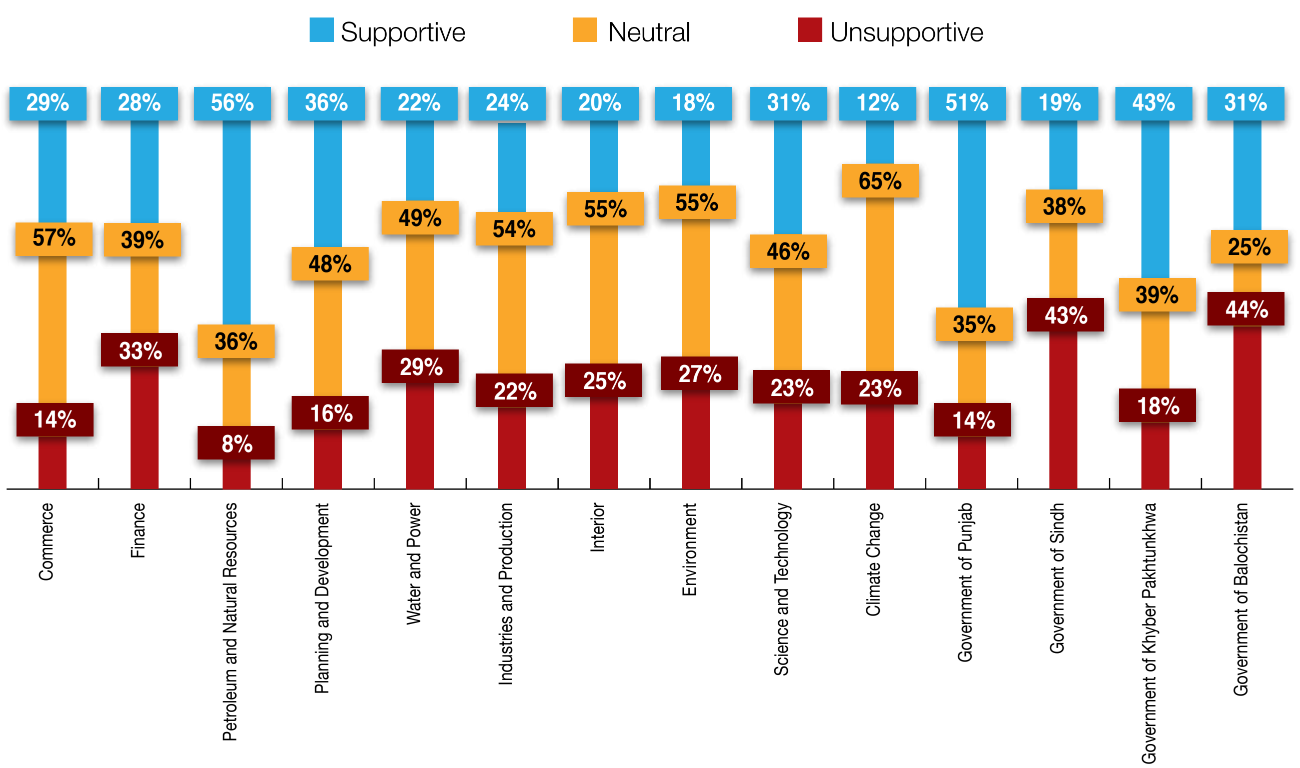
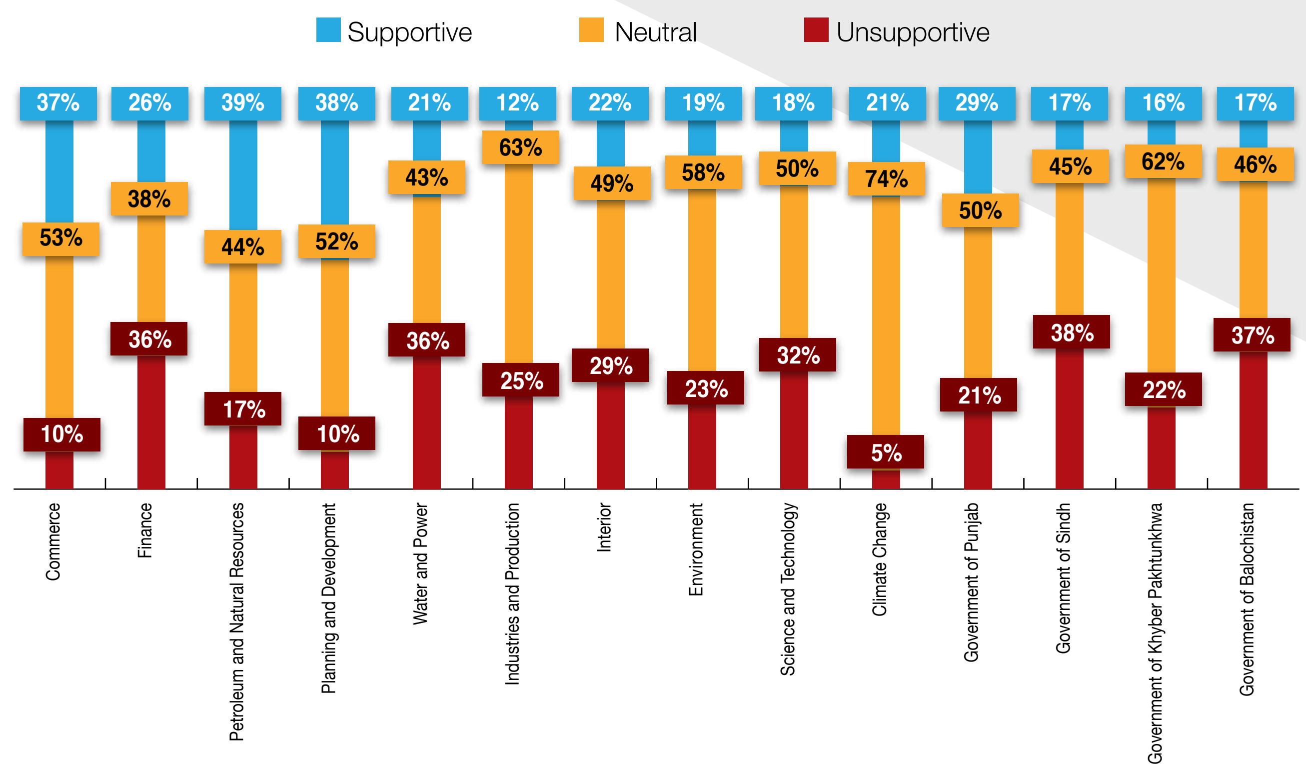


Figure 15(b): Comparative responses in 2015



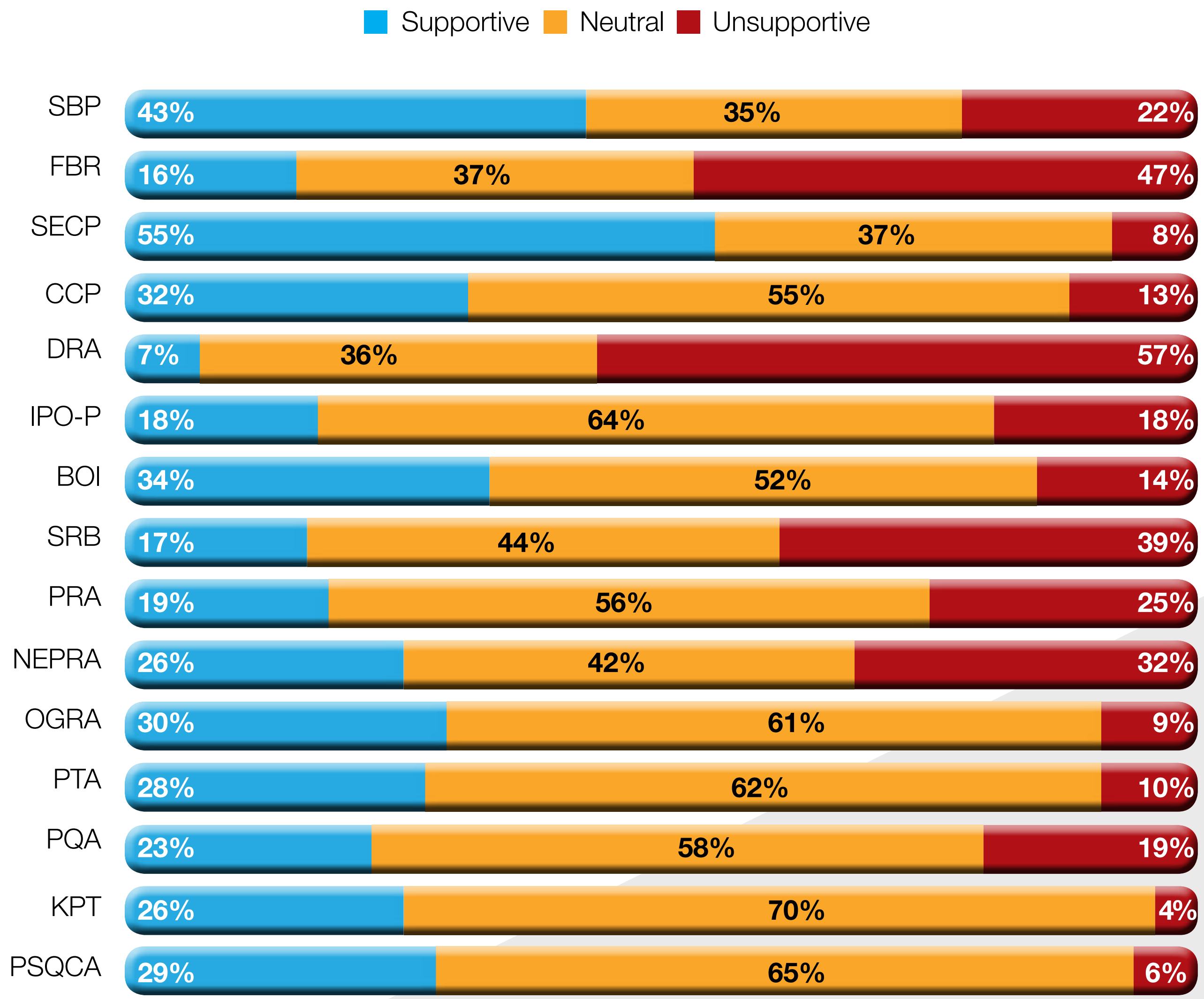
Performance of the Regulatory Authorities

- The performance of 14 regulatory bodies was evaluated in the survey, taking into account their relevance and importance in the functioning of businesses. The results revealed a mixed perception, where most of the regulatory bodies were perceived to be neither supportive nor unsupportive. The SECP, CCP and PTA responses are somewhat similar to the previous survey results of 2015, while SECP fared better amongst all the regulatory bodies with over 50% of respondents showing satisfaction with its performance.

- Members' perception about the performance of SBP and BOI has gone down considerably since the last survey. It seems that, in the case of SBP, delays in processing of foreign currency transfers, over the period of the survey, has negatively impacted the perception of the central bank.

- Similar to the improved ratings for the Ministry of Petroleum and Natural Resources and Ministry of Water and Power, the NEPRA and OGRA have also shown improvement, as responses for "supportive" rating have increased by 7% and 15%, respectively, as compared to 2015 survey.

Figure 16(a): Responses in 2017

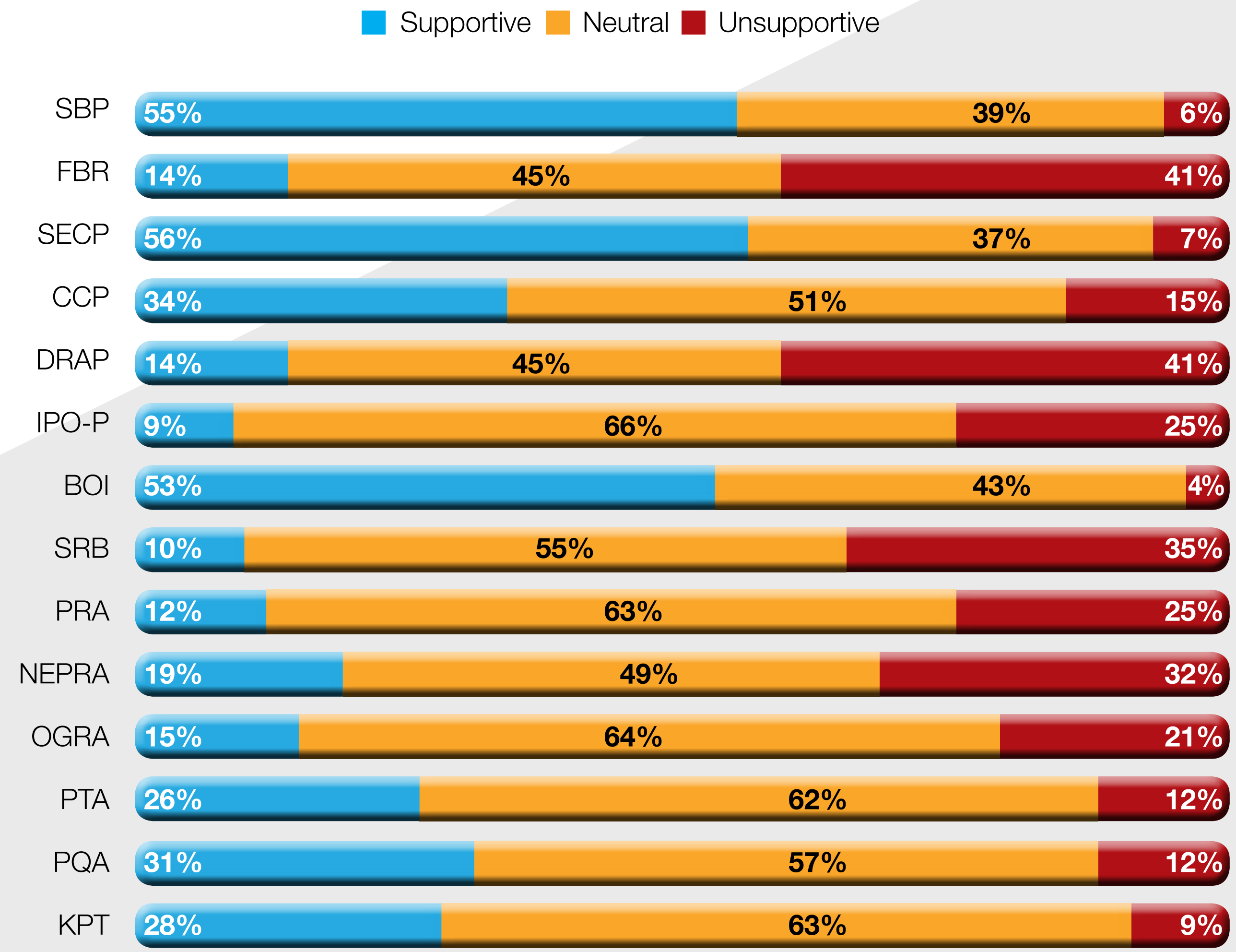


- Drug Regulatory Authority of Pakistan (DRAP) has again received a highly negative assessment and as compared to 2015 there has been an increase of 16% in "unsupportive" ratings. Pharma sector companies have mentioned that DRAP is not receptive to addressing the important concerns voiced by the pharmaceutical companies in respect of pricing, new drugs registration and third party manufacturing, which are core matters for the industry.

- As in the last survey in 2015, FBR has once again not been able to win the confidence of the foreign investors. This is not a surprise, since, besides the earlier issues like the unacceptable long delays in tax refunds, which are continuing, new tax burdens like the 'Super Tax' have been added on the already overtaxed compliant tax paying companies.

- The long unresolved conflicts of jurisdiction between the federal and provincial revenue boards have negatively impacted the business community. This is also reflected in the responses given by the members for the 'Sindh Revenue Board (SRB)' and 'Punjab Revenue Authority (PRA)'. However, upon comparison with 2015 survey the responses show a slight improvement in the overall ratings of PRA.

Figure 16(b): Comparative responses in 2015



Section IV:
Trade and Fiscal Policies

The investment climate is primarily based on fiscal policies of the government, as well as relations with trading partners. Bilateral agreements between Pakistan and other countries impact some members involved in manufacturing activities of finished products which could be imported from these countries. The above responses indicate “no impact” or a “positive” impact on account of the current trade agreements on the OICCI member companies. On the issue of the often discussed MFN/NDMA with India, there are few members who have shown concern as their business may be negatively impacted.

It can also be noted that the percentage of respondents facing “adverse” and “very adverse” impact of the Pak-China Trade Agreement has increased by 4% each, as compared to the survey in 2015. This seems to be a reaction to the perceived negative impact on some Pakistan-made goods due to concessions given to the Chinese companies under the CPEC related projects. Similarly, the percentage of respondents rating the impact of Pak-Afghanistan Transit Trade Agreement as “adversely” and “very adversely” has also increased by 10% and 3% respectively.

Furthermore, Pak-Indonesia Preferential Trade Agreement and Pak-Mauritius Preferential Trade Agreement have also attracted adverse sentiments in the last couple of years. The Agreement on South Asian Free Trade Area (SAFTA) and Pak-Iran Preferential Trade Agreement are now rated more as adverse or no impact. The Pak-Malaysia Trade Agreement has also gained more respondents that rate it as having an adverse impact.

Figure 17(a): Impact of Trade and Fiscal Policies

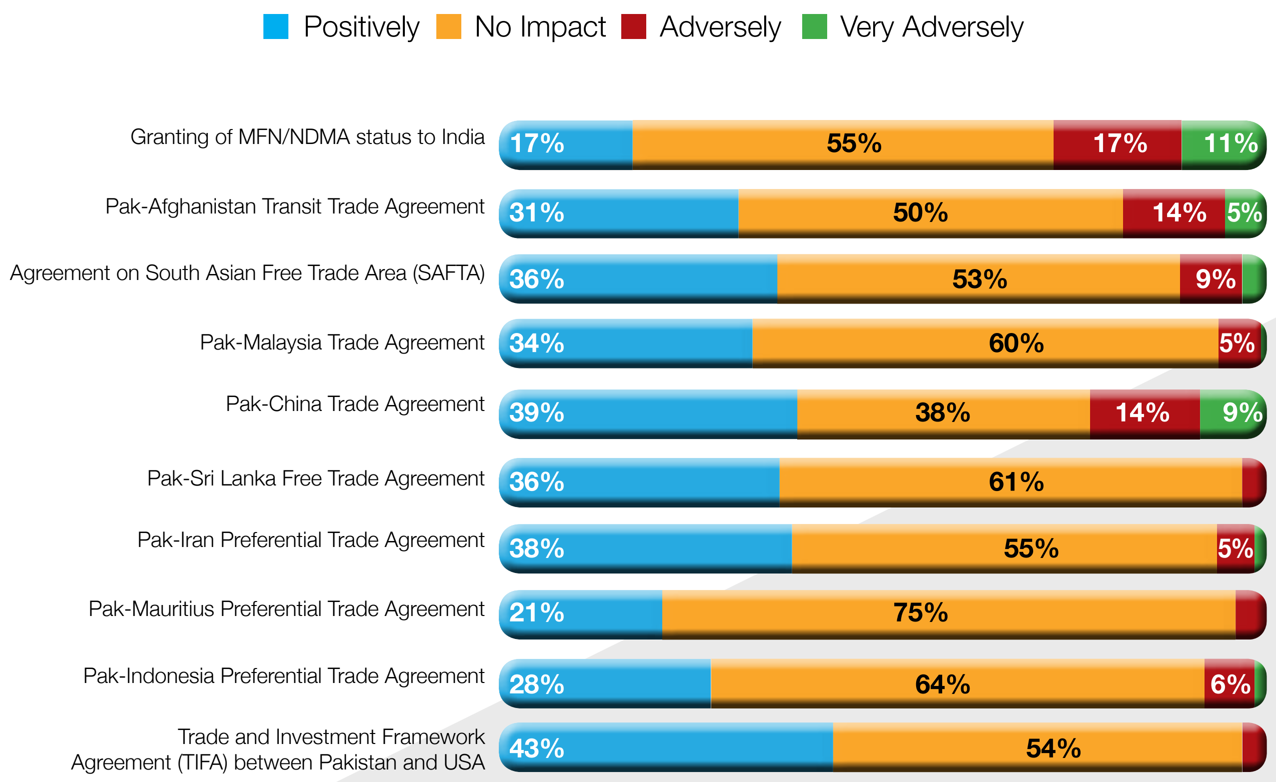
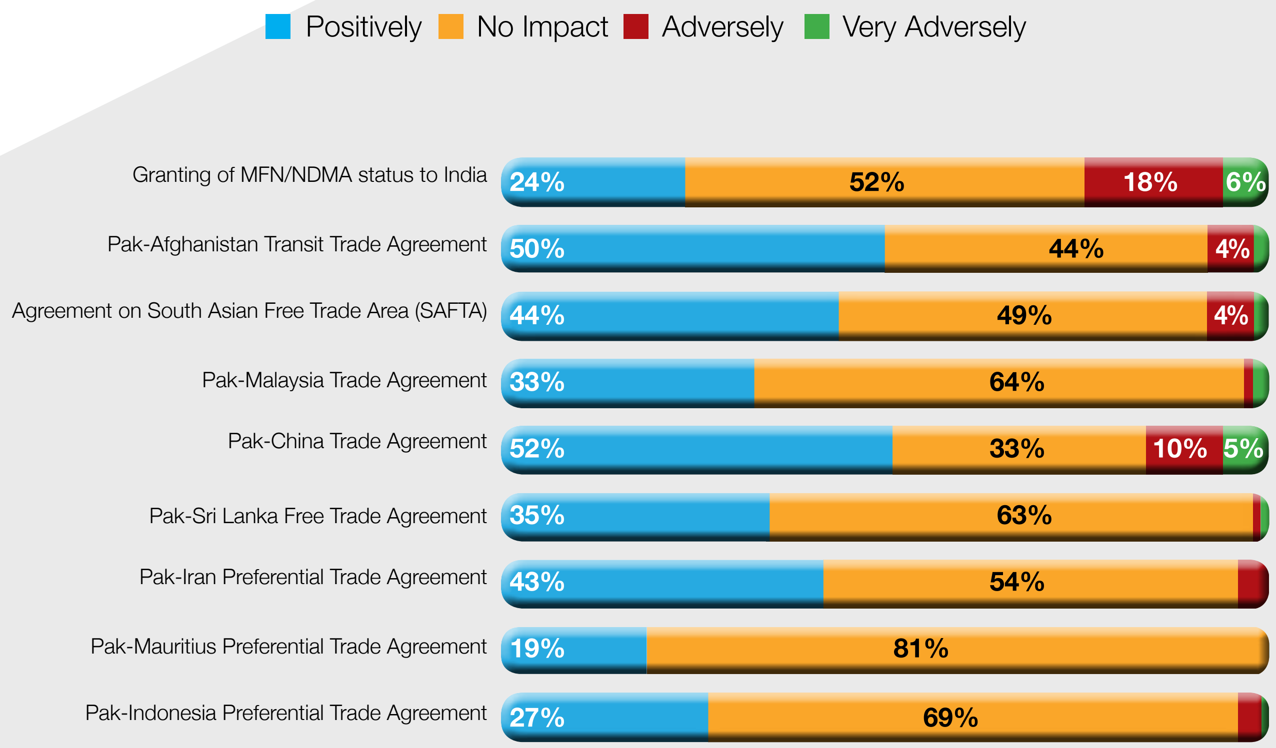


Figure 17(b): Comparative Responses in 2015



Trade Policies

Trade with India
It seems that members' opinion about trade with India has undergone a change since the last survey in 2015, as the negative impact responses have gone up by 4% and the positive responses have dropped by 7%. The increase in negativity could be due to various factors, including a) cost of doing business in India is relatively lower in many business sectors than in Pakistan where costs have gone up significantly in the recent past, b) concerns about rigidity on the Indian side about removal of tariff and non-tariff barriers, as compared to the previous survey, and members are, therefore, less keen for trade with India.

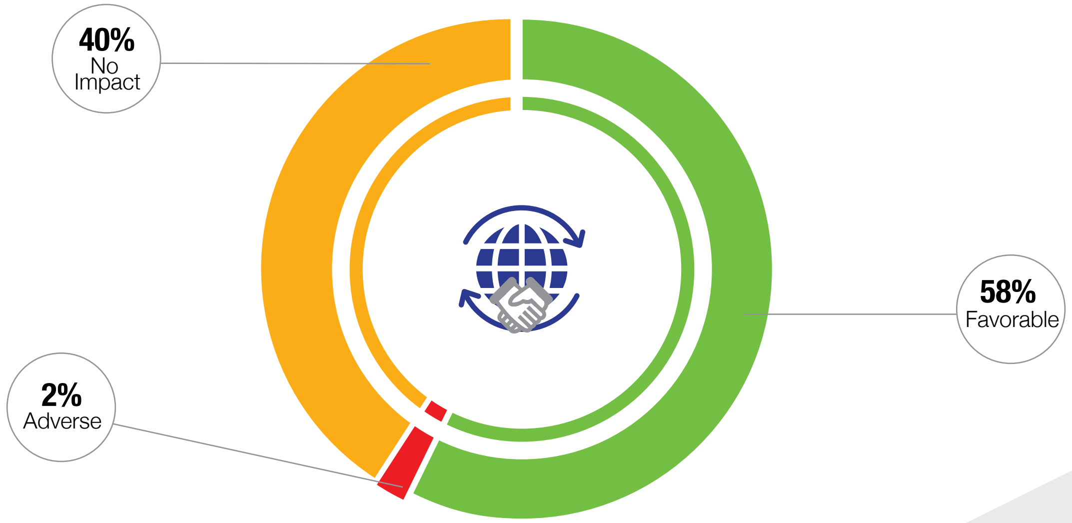
However, on the whole, taking into account both the "positive" and the "no impact" responses, OICCI members believe that MFN status should be granted to India but the government should ensure even-handed responses from the Indian side also.

Trade with Afghanistan
The survey shows that less members, than in the 2015 survey, view trade agreements with Afghanistan "positively" and more view it as having "no-impact" on their businesses. This could be on account of the current tensions between the two countries.

Trade with China
The percentage of respondents being impacted "adversely" and "very adversely" has increased by 4% each. This highlights that businesses in Pakistan are not being positively impacted by the bilateral trade ties between Pakistan and China. This could be, primarily, because of the dumping of the Chinese goods in Pakistan and high imports of Chinese goods, which clearly reduces the sales of the local businesses.

Pakistan's membership of Shanghai Cooperation Organization (SCO)
Figure 18 indicates that more than half the respondents showed bullish sentiments towards Pakistan's membership in Shanghai Cooperation Organization (SCO). Two-fifths declared that there would be no impact of this membership on the business environment in Pakistan (Pakistan joined the SCO in June 2017, over 15 years after this Eurasian political, economic and security organization, was initially formed).

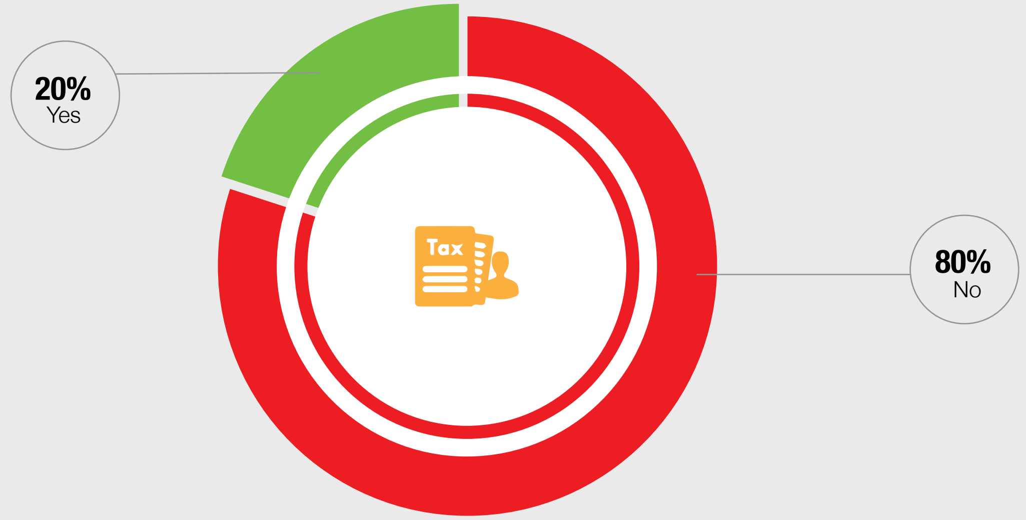
Figure 18: Impact of Pakistan's membership of the SCO



Fiscal Measures

Taxes and Levies
A significant proportion of respondents continue to express dissatisfaction with the non-serious attitude of the authorities for tax broadening measures and apparent unwillingness to catch tax evaders who are largely left outside the tax net. The responses are reflections of the perceptions of an overwhelming majority of respondents who, over the last few years, are increasingly voicing their concerns that compliant taxpayers are being overburdened with taxes, with new surprises added every year in the Federal and the Provincial Finance Acts, commitments not honored, like the Super Tax imposed in the 2015 Federal Finance Act initially for "one year only" is still in force for the last three years. Another example is the Sindh Finance Act 2017 in which Input Sales Tax on franchise fee - royalty and fee for technical fees - has been disallowed. Previously, SRB allowed this adjustment which was in line with VAT principles and global practices, wherein input on reverse charge is allowed. As often mentioned ad-hocism and surprises not only increase cost burden on the companies but, more importantly, damage confidence level of the investors.

Figure 19: Respondents' satisfaction with tax broadening measures (2017)



- The graph below indicates that majority of the respondents are unhappy with taxation policies which, OICCI members have regularly lamented, are not predictable, consistent and long-term.

Figure 20: Government taxation policies and actions during last two years

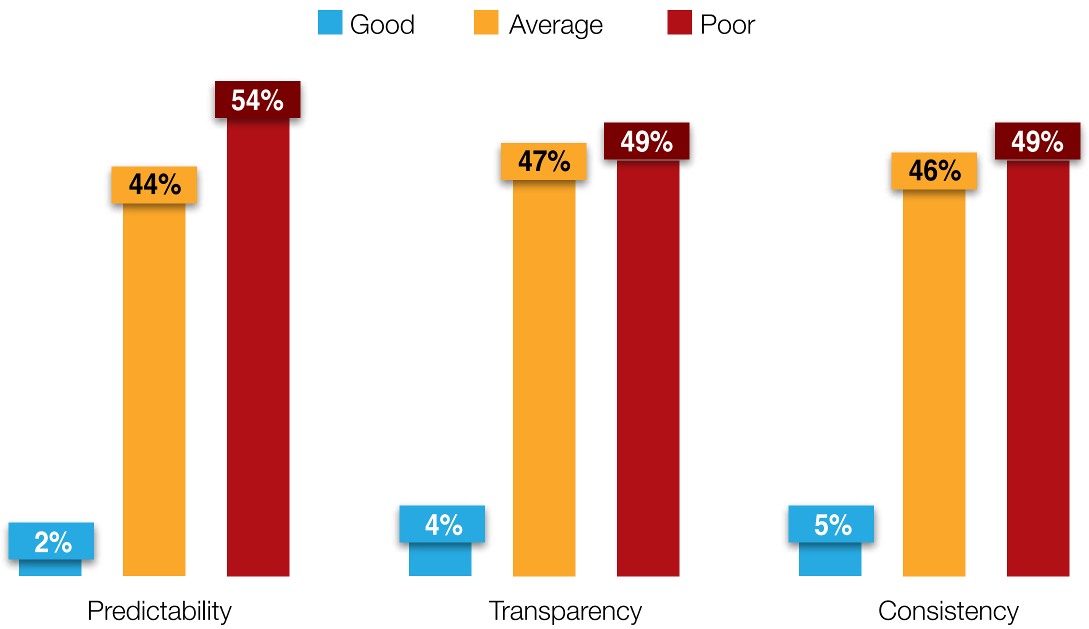
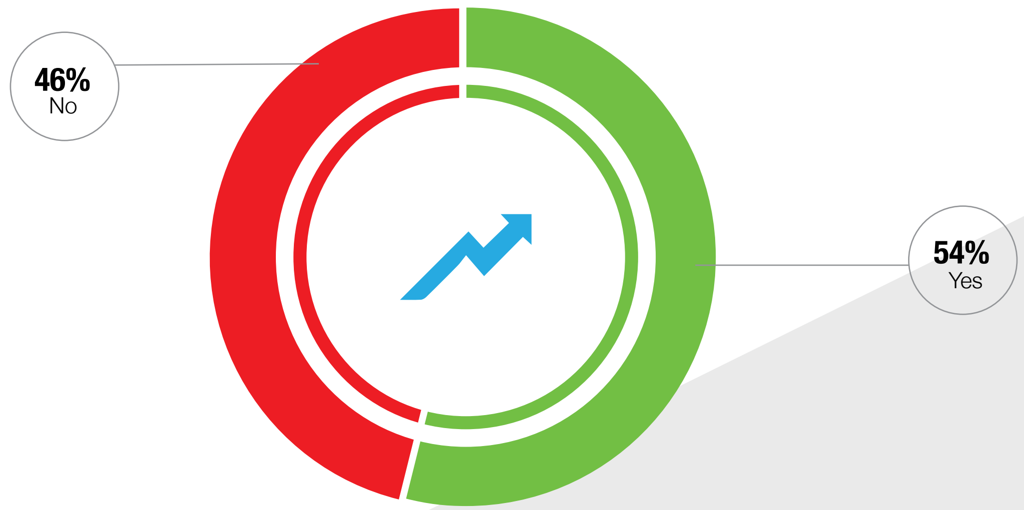


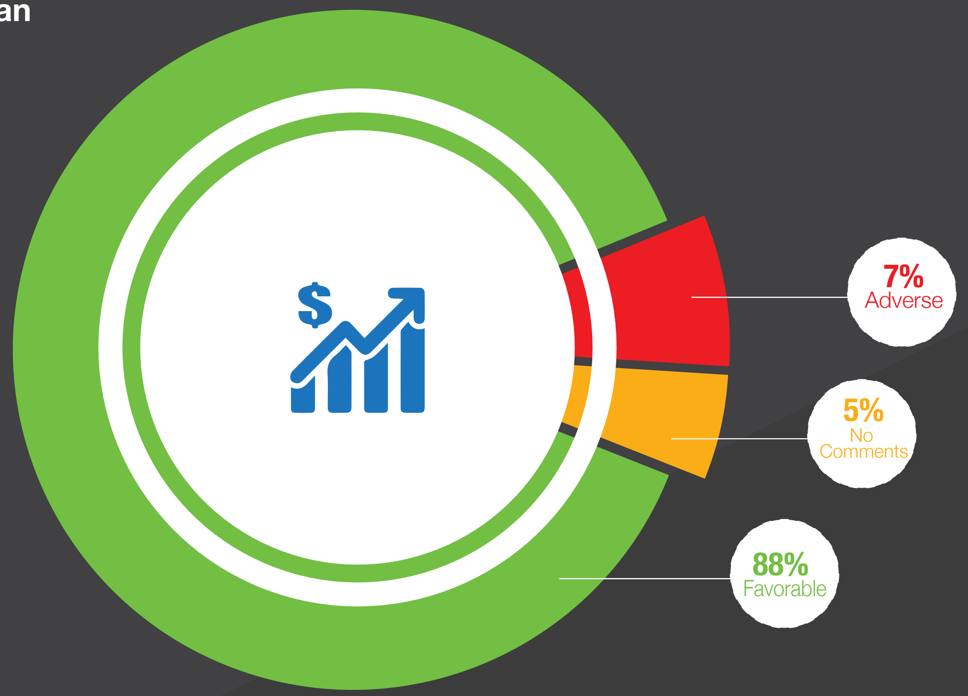
Figure 21: Impact of Pakistan becoming a signatory of OECD



More than half the respondents have shown optimism on Pakistan becoming a member of Organization for Economic Co-operation and Development (OECD), most probably, in the belief that this agreement will broaden the tax base in Pakistan, by forcing the citizens to declare their offshore income and assets.

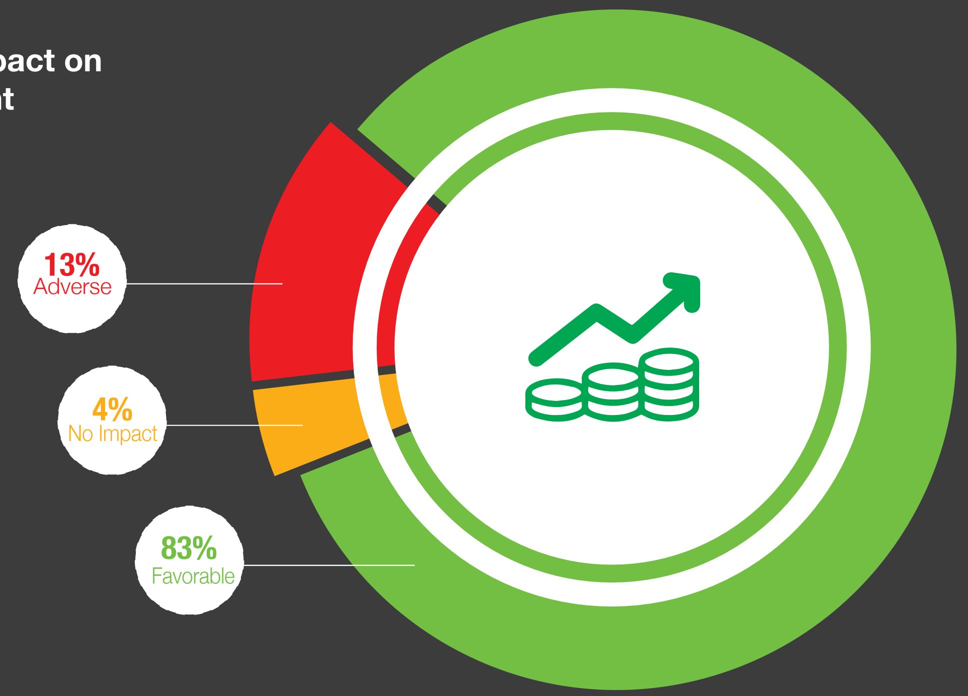
CPEC - China Pakistan Economic Corridor

Figure 22(a): Impact on the Investment Climate in Pakistan



A big majority of the respondents clearly support the current narrative in the country that 'CPEC' will be a 'Game Changer' for Pakistan. Respondents perceive CPEC to be favorable for local as well as foreign investment.

Figure 22(b): Impact on Local Investment in Pakistan



Section V:
Operational / Investment Plans and Selected Financial Numbers

Growth In The Next 2-3 Years

A significant majority of the respondents assess the overall outlook for their business sector to be in the phase of accelerating growth in the next 2-3 years.

As far as the operational and financial performance of the OICCI members is concerned, it can be seen that majority of the respondents anticipate an increase in all of the four parameters; employment base, taxes, profitability and sales revenue.

- In terms of employment base, it must be noted that the companies expect their headcount to either increase or remain the same. This is good news for the overall economy of the country as this would mean an increase in national income.
- Over half of the respondents expect an increase in their sales revenue and profitability.
- Low profitability responses are mostly from Pharmaceutical and Oil/Energy sectors. Some members from the Chemicals/Pesticides/Fertilizer/Paint/Cement sector also anticipate their profitability to decline.
- On average the magnitude of increase for each of the parameters is expected to be between 10-15%.

Figure 23(a): Future Business Outlook

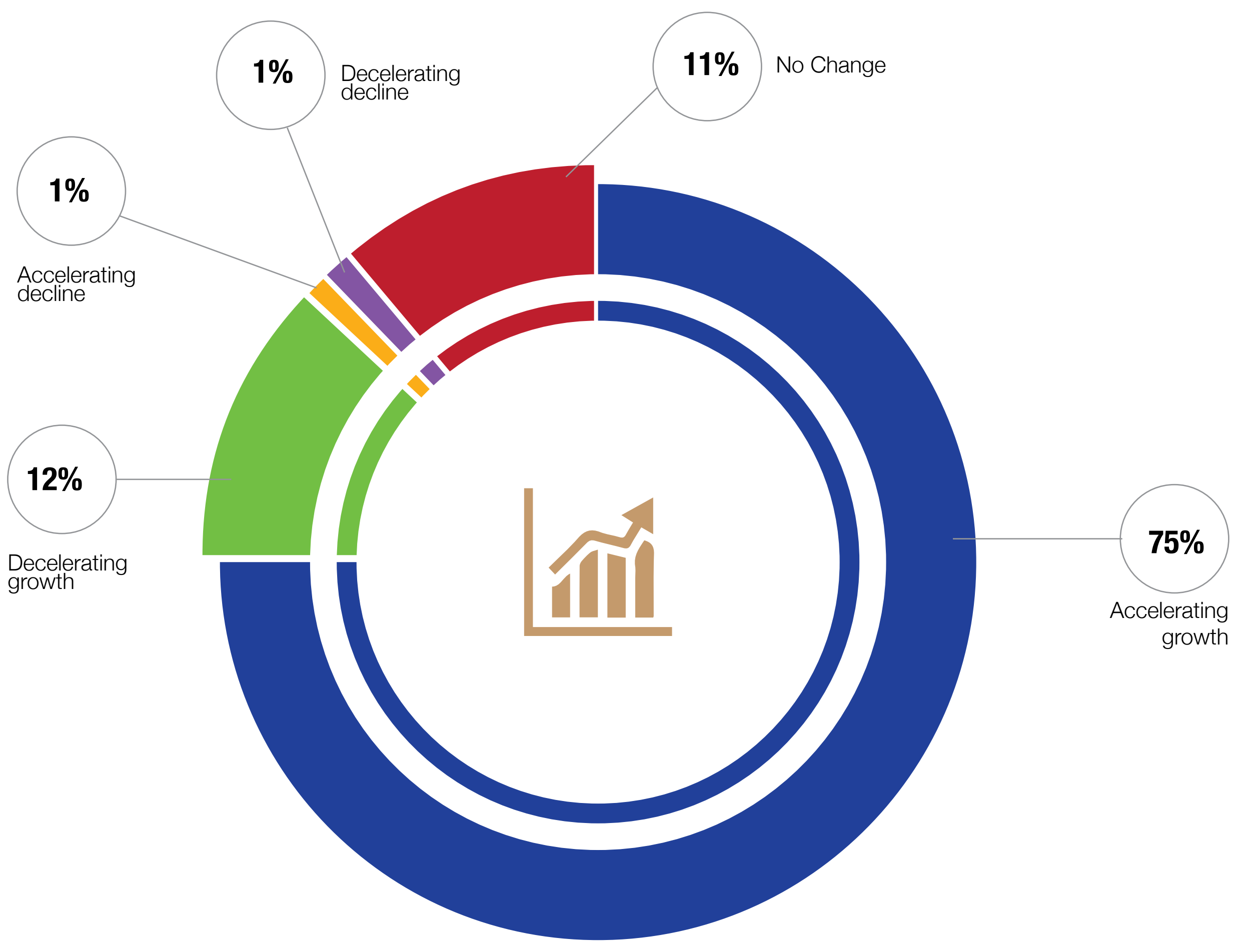
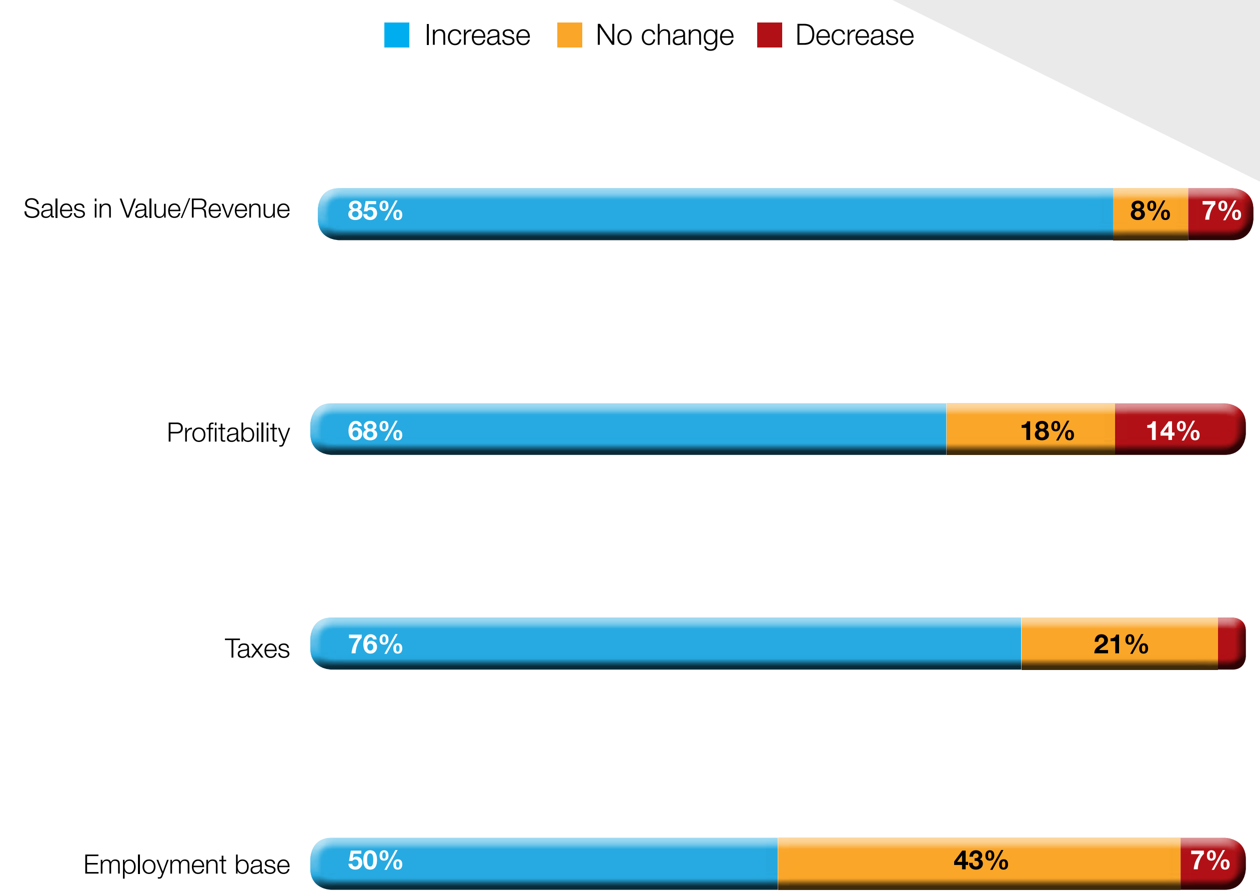


Figure 23(b): Operational and Financial Performance



New Investments

Total investments indicated by respondents, amount to approximately US$ 3 billion during the next 5 years. This is inconsistent with the fact that members actually invested over US$ 4 billion in new capital expenditure in the last two years 2015 and 2016, and OICCI is aware of plans of big new investments of several members, through the corporate grapevine. It is possible that at the time of responding to this survey, most members may not have concrete investment plans beyond the next couple of years or, perhaps, there was some overhang of a number of negative business related responses in this survey, when responses were being made for investments. To put the matter in a proper context, it may be noted that in the 2015 survey also, similar investment amount was indicated over the next 5 years but, as mentioned above, actual investment in the last 2 years alone was well above that amount.

The OICCI has always spoken up for investment in the country, highlighting Pakistan's regulatory environment which is amongst the most investor-friendly in the world, with no restrictions on foreign ownership and repatriation of profits or hiring of expatriates. Tax rates in Pakistan also match rates in the regional countries. Additionally, there are tax incentives for investments. Historically, foreign investment returns in Pakistan have been high - an analysis of 56 OICCI members listed on the PSX reveals that their CAGR 2009-2016 in respect of profitability is highly competitive with any other country in the world.

With a population of over 200 million people, out of which the estimated middle-class is of 50-70 million consumers, favorable demographics, history of good returns for foreign investors already operating in Pakistan and several other positive factors, the case for investing in Pakistan needs to be marketed appropriately by the authorities and other stakeholders.

Pakistan has considerable need for capital investment in several sectors, including mineral exploration, infrastructure, transportation, cost efficient energy, safe and clean city projects. With political stability, insulation from external factors and the right macro-economic environment, Pakistan can register a prolonged period of domestically driven growth.

The ongoing large infrastructure-related investment projects under the China-Pakistan Economic Corridor, State-owned Enterprises Privatization Program, opportunities for growth in local consumption and a largely untapped export potential capital investment in Pakistan, can bring high returns.

Clearly, the full potential of doing business in Pakistan has not yet been fully harnessed by domestic and international investors.

Majority of the Oil/Gas and Energy, Chemicals/Pesticides/Fertilizers/Paints/Cement, Trading and other services, Food/Consumer goods, Engineering/Industrial products, IT & Communication and Automobile sectors' respondents have informed that they shall make new investments over the next 1-5 years.

Whilst a few respondents indicated fresh new foreign equity injection, most of the respondents have indicated that new investments will be made from retained earnings and local borrowing.

Figure 24(a): Planned investment over the next 1-5 years

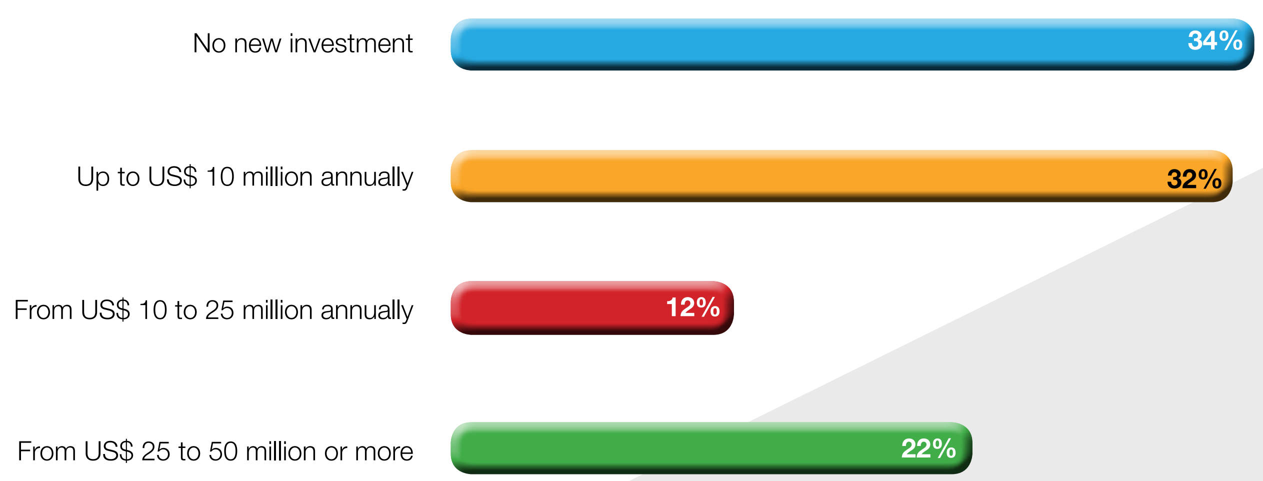
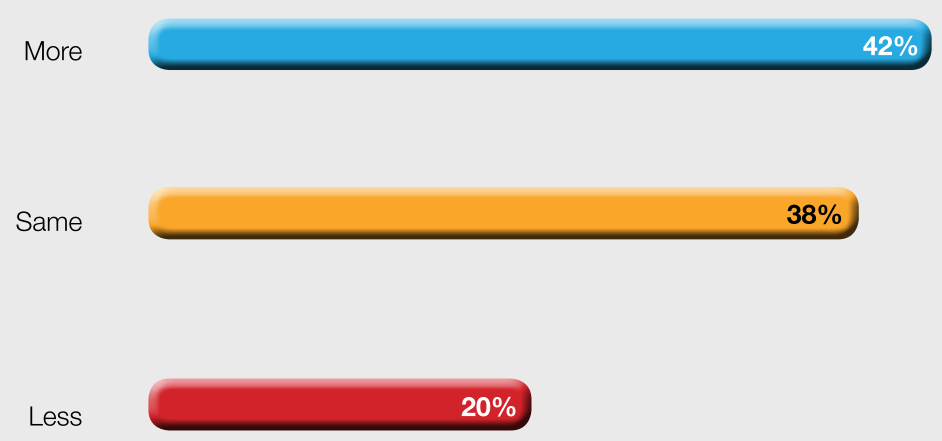


Figure 24(b): New planned investment vs. comparative previous period



Selected Financial Information

- The numbers below are based on members' financial statements for the year ended December 31, 2016 or earlier on June 30, 2016, respectively.
- Levies paid include income tax, sales tax, custom duties and excise duties.
- These numbers are based on the information given by the participating companies as well as the information downloaded from financial statements of listed companies.

Gross Revenue
PKR **3.7** TRILLION

Value of Total Assets
PKR **8.7** TRILLION

Total Levies Paid to Federal and Provincial Governments
PKR **1.04** TRILLION

Capital Expenditure
PKR **233** BILLION

Research Methodology

The Perception and Investment Survey 2017 questionnaire focused on five broad areas, within which several issues of interest to current members and potential investors were addressed. These were:

1. **Business Environment**
2. **Top Challenges**
3. **Governance**
4. **Trade and Fiscal Policy**
5. **Operational/Investment Plans and Selected Financial Numbers**

The Perception and Investment Survey 2017 incorporates new developments impacting the corporate sector since the last survey done in 2015.

The survey's findings are represented in percentages which are easier to follow and determine trends. Complementary illustrations are provided to gain insight into various perceptions at a glance. Responses to questions requiring respondents to rank options on a scale have been aggregated using the weighted average method. The resulting data is tabulated to provide a summary and quick interpretation of results.

As in the previous surveys, the 2017 survey provides a variety of response options for different questions in order to elicit responses which give general positive, negative or neutral positions on various aspects of the business environment and governance in the country.

For questions involving a range of response options, including those that may not be directly relevant to a particular member, respondents were asked to indicate options relevant to their company and/or industry. Where applicable and significant, sector-wise statistics are presented to provide further insight into broad indicators.

The Chemical and Fertilizer sector refers to the OICCI member companies which produce fertilizers, pesticides, paints and cement. Likewise, the Energy sector refers to OICCI members from the oil and gas industry, including oil marketing companies (OMCs), independent power producers (IPPs) and exploration and production (E&P) companies. Financial services represent members who are engaged in banking and non-banking financial services such as leasing, insurance, asset management and other related services.

*The Perception and Investment Survey 2017 questionnaire can be viewed on our website oicci.org

Annexure

List of Participating Companies - Total 141

AUTOMOBILE

1. Atlas Honda Limited
2. Hinopak Motors Limited
3. Indus Motor Company Limited

CHEMICALS / PESTICIDES / FERTILIZERS / PAINTS / CEMENT

4. Akzo Nobel Pakistan Limited
5. Archroma Pakistan Limited
6. Arysta Life Science Pakistan (Private) Limited
7. Attock Cement Pakistan Limited
8. BASF Pakistan Private Limited
9. Berger Paints Pakistan Limited
10. Clariant Chemical Pakistan (Private) Limited
11. Dawood Hercules Corporation Limited
12. Engro Corporation Limited
13. Engro Fertilizers Limited
14. Engro Polymer & Chemicals Limited
15. ICI Pakistan Limited
16. Linde Pakistan Limited
17. Lotte Chemicals Pakistan Limited
18. Nalco Pakistan (Private) Limited
19. SICPA Inks Pakistan (Private) Limited
20. Sika Pakistan (Private) Limited
21. Tri-Pack Films Limited

ENGINEERING / INDUSTRIAL PRODUCTS

22. ABB Power & Automation Private Limited
23. Avery Scales (Private) Limited
24. Beltexco Limited
25. DuPont Pakistan Operations (Private) Limited
26. Greif Flexibles Pakistan (Private) Limited
27. J&P Coats Pakistan (Private) Limited
28. Johnson & Phillips (Pakistan) Limited
29. KSB Pumps Company Limited
30. Pakistan Cables Limited
31. Philips Pakistan Limited
32. Rafhan Maize Products Company Limited
33. Serioplast Pakistan (Private) Limited
34. Siemens Pakistan Engineering Company Limited

IT AND COMMUNICATION

35. Hewlett Packard Pakistan (Private) Limited
36. HP Pakistan (Private) Limited
37. IBL Unisys Pakistan (Private) Limited
38. IBM
39. Pakistan Telecommunication Company Limited
40. Reuters Limited
41. Telenor Pakistan (Private) Limited
42. Teradata Global Consulting Pakistan (Private) Limited
43. TPL Holdings (Private) Limited
44. TRG (Private) Limited

OIL / GAS / ENERGY

45. Asia Petroleum Limited
46. Atlas Power Limited
47. Attock Refinery Limited
48. Chevron Pakistan Lubricants (Private) Limited
49. Engro Powergen Limited
50. Engro Powergen Thar (Private) Limited
51. ENI Pakistan Limited
52. General Electric International Operations Company Inc.
53. Hascol Petroleum Limited
54. K-Electric Limited
55. Kirthar Pakistan Holdings B.V.
56. Kot Addu Power Company Limited
57. Kuwait Petroleum Corporation
58. Pak-Arab Pipeline Company Limited
59. Pak-Arab Refinery Limited
60. Pakistan Petroleum Limited
61. Pakistan Refinery Limited
62. Premier Oil Pakistan Holdings B.V.

63. Rousch (Pakistan) Power Limited
64. Shell Pakistan Limited
65. The Hub Power Company Limited
66. Total Parco Pakistan Limited
67. Uch Power (Private) Limited
68. United Energy Pakistan Limited

TRADING AND OTHER SERVICES

69. 3M Pakistan (Private) Limited
70. Engro Vopak Terminal Limited
71. Habib Metro Pakistan (Private) Limited
72. Hascombe Business Solutions (Private) Limited
73. ITOCHU Corporation
74. Metro-Habib Cash & Carry Pakistan (Private) Limited
75. Mitsubishi Corporation
76. Muller and Phipps Pakistan (Private) Limited
77. Qasim International Container Terminal Pakistan Limited (DP World)
78. SGS Pakistan (Private) Limited
79. SPG Prints Pakistan (Private) Limited
80. Walmart Global Sourcing Service Limited

BANKING / INSURANCE / FINANCE AND LEASING

81. Al Baraka Bank (Pakistan) Limited
82. Bank Alfalah Limited
83. BIPL Securities Limited
84. BMA Capital Management Limited
85. Chubb Insurance Pakistan Limited
86. Citibank N.A.
87. Deutsche Bank AG
88. Dubai Islamic Bank Pakistan Limited
89. Faysal Bank Limited
90. J. P. Morgan Pakistan (Private) Limited
91. Jubilee Life Insurance Company Limited
92. Meezan Bank Limited
93. NBP Fullerton Asset Management Limited
94. Orix Leasing Pakistan Limited
95. Pak Brunei Investment Company Limited
96. Pak China Investment Company Limited
97. Pak Oman Investment Company (Private) Limited
98. Pak-Libya Holding Company (Private) Limited
99. Standard Chartered Bank (Pakistan) Limited
100. The Bank of Tokyo-Mitsubishi UFJ Limited
101. United Bank Limited

FOOD / CONSUMER PRODUCTS

102. Abudawood Trading Company Pakistan (Private) Limited
103. Arabian Sea Enterprises Limited
104. Bata Pakistan Limited
105. Continental Biscuits Limited
106. Engro Foods (Private) Limited
107. Gillette Pakistan Limited
108. Mondelez Pakistan Limited
109. Nestle Pakistan Limited
110. Procter & Gamble Pakistan (Private) Limited
111. Reckitt Benckiser Pakistan Limited
112. S. C. Johnson & Son of Pakistan (Private) Limited
113. Tetra Pak Pakistan Limited
114. Unilever Pakistan Limited

PHARMACEUTICAL

115. Abbott Laboratories (Pakistan) Limited
116. Barrett Hodgson Pakistan (Private) Limited
117. Bayer Pakistan (Private) Limited
118. B.Braun Pakistan (Private) Limited
119. BSN Medical (Private) Limited
120. Chiesi Pharmaceuticals (Private) Limited
121. Eli Lilly Pakistan (Private) Limited
122. GlaxoSmithKline Pakistan Limited
123. Lundbeck Pakistan (Private) Limited
124. Novartis Pharma (Pakistan) Limited
125. Novo Nordisk Pharma (Private) Limited
126. OBS Healthcare (Private) Limited
127. Parazelsus Pakistan (Private) Limited
128. Pfizer Pakistan Limited
129. Pharmatec Pakistan (Private) Limited
130. Roche Pakistan Limited
131. Sanofi Aventis Pakistan Limited

PRINTING AND PUBLISHING

132. Oxford University Press
133. Paxar Pakistan (Private) Limited

SECURITY SERVICES

134. Phoenix Armour (Private) Limited

SHIPPING AND AIRLINES

135. DHL Pakistan (Private) Limited
136. Mackinnon Mackenzie & Company Of Pakistan (Private) Limited
137. Pakistan International Container Terminal Limited
138. South Asia Pakistan Terminals Limited

TELECOMMUNICATIONS

139. Pakistan Mobile Communications Limited

TOBACCO

140. Pakistan Tobacco Company Limited
141. Philip Morris (Pakistan) Limited

Overseas Investors Chamber of Commerce and Industry

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Published in December 2017