Why Pakistan?

Background

Pakistan's total area is 796,095sq km *(source: Government of Pakistan)* of which 3% is water. It is bordered by Iran in the South West, Afghanistan to the West and North, China to the North-East and India to the East. Its main geographical features are mountain peaks in the North, including K2, the second highest mountain in the world. There are two sea port cities: Karachi (with two ports – one in Karachi itself, the other at Port Qasim south of the city) in Sindh and Gwadar in Baluchistan.

The Central-East part of the country is comprised of the flat, fertile plains of the Indus Valley, which provide the bulk of agricultural produce of the country. To the West, dry rugged mountains dominate the landscape and the South-West is composed of mainly inhospitable plateaux. Barren deserts form much of the South-East and vast plains cover almost a third of the total land area.

Administratively the country is divided into four Provinces, namely Khyber Pakhtoonkhwa, Punjab, Sindh and Balochistan. As their name suggests the Federally Administered Tribal Areas have different governance arrangements. Punjab has a population of 100 million and contribution of approximately 60% towards the country's GDP through its agriculture and textile industry. Lahore is its largest city and the hub of all activity. Karachi, in Sindh, is the business and financial capital; it is home to the majority of the multi-national and local corporations. Quetta is the largest city of Baluchistan with oil, gas and mining as its most important sectors. Peshawar is the main city and hub of all activity in Khyber Pakhtoonkhwa (KPK). KPK is known for its dry fruits, forestry and tourism.

Key Facts

Population: 190 million (July 2014 est.)50% below the age of 25 (2014)Growth rate: 1.49% (2014 est.)Urban: 36%

Major Cities: Sindh: Karachi (Pop. over 20 million), HyderabadPunjab: Lahore (Pop. 7.566 million), Multan (Pop. 1.775 million), Faisalabad (Pop. 3.038 million), Rawalpindi (Pop. 2.164 million)Khyber Pakhtoonkhwa: Peshawar, MardanBaluchistan: Quetta, GwadarIslamabad (Capital) (Pop. 919,000)

Climate: Generally warmSummer: 38-48C – Winters: 0-20C - End March – Early OctoberWinter: Mid December – End February (Temperatures vary across regions so check before travelling)

Literacy Rate: 54.9% (above 15yrs. read & write in Urdu Language)

Official Language: English

GDP (PPP): £336.1billion (2013 est.)

GDP Growth: 4.1% (2014

Fiscal Year: July 1st – June 30th

Distribution of Family Income (Gini Index): 29.6 (2011)

Budget Revenue: £22.8 billion (2014.)

Budget Expense: £31.6 billion (2014)

Budget Deficit: -5.8% of GDP (2014)

Expenditure on Health: 3.1% of GDP (2012)

Expenditure on Education: 2.5% of GDP (2014)

Labour force: 63.8 (2012)

Tax Revenue: 10.6% of GDP (2014)

Inflation (Consumer Prices): 8.6% (2014)

Currency Pegging: USD

(Source: Ministry of Finance; Pakistan Bureau of Statistics; World Bank)

Economic Overview

Pakistan has a population of approximately 190 million; this will continue to grow rapidly in the coming decades. The economy has transformed from a low-skilled agrarian economy to a modern industrial nation. In 2014, the GDP of Pakistan comprised of agriculture (21.1%) industry (20.1%) and services (58.1%). Much work is still needed for Pakistan to bring its economy in line with the developed economies of the world. This gap offers a unique economic opportunity for developed nations like the UK to export its technology, skills and expertise to manage the resources available in Pakistan and generate economic benefits for both countries.

The country's economy has been sluggish in the recent past, bogged down by issues such as floods, terrorism, poor governance and energy shortages. Still it managed to post a growth of between 3-4%. Although inflation is officially reported around the 8% mark, this fails to capture the true picture, as underemployment remains high and a large portion of the economy is undocumented, hence published research/statistical data is usually not available.

The rural (agricultural) economy has done quite well in the recent past. While the price of inputs has registered a growth, the support prices of agricultural produce have been linked to international markets/pricing system. Favourable weather has resulted in above average cotton, wheat, sugarcane and rice crops. Pakistan suffers from a current account deficit, in large part due to higher prices of oil imports and lower prices for exported cotton.

The industrial side of the economy continues to be adversely affected by energy shortages. Nevertheless, the country continues to post record export numbers, and foreign exchange remittances from the overseas diaspora community (Pakistani workers etc.) continue to grow, a valuable source of foreign currency for the country.

The State Bank of Pakistan (SBP) is Pakistan's central bank and sets monetary policy. In its latest meeting, the SBP has set the current benchmark interest rate at 9.5% (November 2014). This was as high as 15% in 2009 and stifled private enterprise. Generating revenue is a key weakness of successive Pakistani Governments. Other than direct taxes on salaried persons and the corporate sector very few private businesses, services etc. pay tax.

Pakistan has a very high incidence of indirect taxation in the form of Sales Tax, Excise Duty etc. There is a core middle-class and a segment of wealthy Pakistanis who provide a sizable purchasing power for all types of products, expensive and cheap. The size of this segment is estimated at around the PKR45-60 milliom mark. (The Pakistani Rupee (PKR) currently trades at PKR160 = £1 GBP (December 2014).

Additional and updated country information can be found on the following sites:

- World Bank's Country Profile for Pakistan

- IMF Country Information

Population

The population of Pakistan is estimated to be in the region of 190 million with 36% living in urban areas.

Political Overview

Pakistan has experimented with various forms of government including civil, military and a hybrid of both. Since 2008, the country has been led by democratically elected civilian Governments; the elections in 2013 saw the first transition from one civilian Government to another in the country's history.

The President is the Head of State (President Mamnoon Hussain since 9 September 2013); the role is largely ceremonial. The President is elected by an Electoral College comprising the National Assembly (lower House of Parliament), the Senate (Upper House of Parliament) and the Provincial Assemblies.

The Prime Minister (Mian Mohammed Nawaz Sharif since 5 June 2013) is the Head of Government and runs the affairs of the State with his Cabinet Ministers. The Prime Minister is elected by a simple majority of the National Assembly. Pakistan has a large number of Ministers and Advisers when compared with both developed and other emerging economies.

Each of the four Provinces has its own Provincial Assembly, headed by a Chief Minister. Under a 2010 constitutional reform, the Federal Government has devolved many powers, in areas such as Education, Social Welfare, Healthcare, Environment, Tourism, Livestock & Dairy Development and Women's Development, to the Provincial Governments. As a result, it is estimated that 56% of the country's budget is directly controlled by the Provinces.

The Provinces are further divided into Districts for administrative ease which are administered by a District Commissioner.

Polls for National Assembly are held after every five years and are due again in the first half of 2018. Senators serve terms of six years, and one-half of the seats in the Upper House come up for re-election every three years (next elections are in the first half of 2015). Provinces are represented in the National Assembly in proportion to the size of their populations.

Pakistan is a developing democracy. Some current day politicians are drawn from families who have been represented in the National Assembly, Senate or local Government since independence. Rural politics in Pakistan is largely based on "Baradari" a form of Caste system. The Pakistan Armed Forces remains a major force in the country and has seized power on a number of occasions in the past. It also receives the major portion of the Federal budget and maintains active interests in commercial areas, land development, manufacturing etc.

Strengths of the market

Pakistan's dynamics do not lend themselves to an arm's length analysis or easy number crunching. The country has suffered tremendously due to under-investment in key infrastructure and corruption. Nevertheless, international companies which operate in the country can vouch for the above-average returns they make for their shareholders.

The foremost strength of the market is the resilience exhibited by the people and the economy. The fertile lands that fall within the geographic area of the country provide its people with food to eat and create employment for close to 50% of its workforce. The major industrial activity – textiles – is also largely dependent on agricultural produce.

Pakistanis have become accustomed to cyclical variations in their economic fortunes; a few years of growth followed by a few years of slump, with the pattern repeating for most of the 60 plus years that the country has been in existence.

A strength of the market is the pool of educated workforce and growing middle class; the people have a reputation for hard work and creative excellence, given the right opportunities and environment. With good English communication skills (Pakistan is the British Council's largest overseas market for exams services) and expertise in engineering & management disciplines, Pakistan offers a pool of (qualitatively) internationally-competitive manpower.

Pakistan's geographical location is also a strength, allowing overseas businesses to not only draw upon the similarities it shares with its neighbouring markets but also gain access to the Central Asian states and Afghanistan. The market is relatively uncluttered when compared to its neighbours.

Investor-friendly laws

In terms of allowing 100% equity and 100% repatriation of profits and creation of bodies to facilitate foreign investors, investor-friendly laws provide traction to any new venture. Foreign investors are generally free to establish and own business enterprises in Pakistan, with the exception of five restricted areas: arms and munitions, high explosives, currency/mint operations, radioactive substances, and new non-industrial alcohol plants.

There are no ownership limits in other sectors of the economy, except for Pakistan's foreign equity limits in banking. There is no minimum investment requirement for manufacturing. There is a $150,000 minimum foreign investment requirement in nonfinancial services (except information technology services), and of $300,000 in agriculture, infrastructure projects, and social services (such as education and health).

The Government's investment policy allows for full repatriation of capital, capital gains, dividends, and profits with the approval of the SBP. No requirements exist for technology transfer. The law provides for expropriation only upon adequate compensation and prohibits changes in benefits and incentives. Incentives, including tax breaks and first year depreciation allowance, will not be changed in a way to disadvantage foreign investors versus domestic investors. Pakistan has eliminated all local content requirements including those in the automobile sector.

The market exhibits well-developed channels (in some sectors, notably FMCG) and has a very positive perception of goods and services coming in from the West versus from the Far-East although it can be price sensitive.

Trade between UK and Pakistan

In 2013 bilateral trade in goods and services between the two countries stood at just under £2.3 billion. The UK and Pakistan Prime Ministers have set a target for it to grow to £3 billion by the end of 2015. Trade in goods has grown by an average of 14% up to the end of September 2014 (the figure for trade in services is not yet available). While the £3 billion target is challenging, there are excellent opportunities for both UK and Pakistan companies to contribute to meeting it.

Many large British multi-nationals maintain a presence here, notably Unilever, Royal Dutch Shell, Reckitt Benckiser, Standard Chartered Bank, Barclays and GSK, and are market leaders in their respective sectors.

Source - UKTI

Banking & Financial Services

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