

# PAKISTAN



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**REASONS TO INVEST IN PAKISTAN**

- Pakistan ranks ahead of both China & India in 'Ease of Doing Business', according to the World Bank report 'Doing Business 2008'.
- According to the World Bank report 'Doing Business 2008', Pakistan ranks 19 out of 178 countries worldwide on protecting investors.
- Located in the heart of Asia, Pakistan is the gateway to the energy rich Central Asian States, the financially liquid Gulf States and the economically advanced Far Eastern tigers. This strategic advantage alone makes Pakistan a marketplace teeming with possibilities.
- Pakistan is bigger than both France and Germany put together.
- Pakistan is the world's 15th largest economy and the world's third largest English speaking nation.
- Pakistan is the 6<sup>th</sup> most populous country in the world with more than 50% of its population below the age of 25 years.
- There is equal treatment of local & foreign investors and foreign equity up to 100% is allowed.
- Remittance of 100% of capital, profits, royalty, technical & franchise is allowed.
- Foreign investment in Education, Technical/Vocational Training, Human Resource Development (HRD), Hospitals, Medical and Diagnostic Services are permitted to hold 100% equity provided initial investment is at least USD 0.3 million.
- Exemption of export duty & sales tax on import of machinery and exemption of duty on transfer of land for Corporate Agriculture Farming.
- Pakistan is the 8<sup>th</sup> largest pharmaceutical industry in the world with 40 biotechnology companies, involved in the development and manufacture of various drugs.
- Pakistan is the 7<sup>th</sup> largest pool of scientists and engineers in the world and there are 200,000 IT professionals.
- With more than 100 universities, 150 research institutions and 2000 higher education institutes, Pakistan produces 100,000 engineering graduates and another 100,000 technically trained graduates every year. Also there are 7.5 million Pakistanis working abroad.

**FACTSHEET**

Population: 172 million

Population Growth: 1.8%

Age Structure: 0-14 years: 37.8%  
(Estimated) 15-64 years: 58%  
65 years and over: 4.2%

Capital: Islamabad

Independence: 14<sup>th</sup> August 1947

Religion: Muslims (95%); others (5%)

Legal System: Based on English common law with provisions to accommodate Pakistan's status as an Islamic state

GDP (2007): US\$ 155 billion

GDP Growth Rate: 2.4%

Total Imports (July08-June09): US\$ 34.7 billion

Total Exports (July08-June09): US\$ 18.3 billion

Labour Force: 53 million

Currency: Pakistani Rupee (PKR)

Exchange Rate: PKR 80 (US\$); PKR 98 (EUR); PKR 120 (UK£)

Fiscal year: 1<sup>st</sup> July to 30<sup>th</sup> June

Foreign Direct Investment (July08-June09): US\$ 3.72 billion

## **ECONOMIC OVERVIEW**

Pakistan has made great economic strides since independence 60 years ago. It has transformed itself from a low skilled agrarian economy to a modern industrial nation. However, Pakistan has a long way to go in economic and social development as the country still has a large number of populations living below the poverty line. Surely it has the potential to excel further.

UK exports to Pakistan were worth £465m in 2008 and £212m (Jan – May) in 2009 which is 19.6% increase from the corresponding period of the previous year (2008). Britain and Pakistan have always enjoyed good trade relations and many Pakistani businesses see Britain as the country of first choice to do business with. The UK is the fourth largest OECD exporting country to Pakistan, with a 10 percent share of the market. It is listed as the second largest investor in the country with an investment of US \$264m: 6.9% market share. USA is the largest investor with US \$ 875 million (FY2008-09): 23.5% market share. Switzerland is at third position with US \$ 227.3 million: 6.5% market share.



There are over 100 British Companies operating in Pakistan. Major British companies are ICI, GlaxoSmithKline, International Power, HSBC, Barclays, Royal Bank of Scotland, Standard Chartered, Shell, Unilever, Reckitt Benckiser and British Petroleum.

The American business community has a significant presence in Pakistan, with investments in the oil and gas, communications, IT and Telecom, Construction, Services, Food and Beverage and Power sectors. Some of the major US companies that have a presence in Pakistan are General Electric (GE), Hewlett-Packard, IBM, American Express, Dell, Intel, Proctor & Gamble, Microsoft, PepsiCo, Coca-Cola, Motorola and Cisco.

## **AGRICULTURE**

Agriculture plays a vital role in the economy of Pakistan. Despite the recent decline, it remains the single largest sector of Pakistan's economy contributing 20% of the total Gross Domestic Product (GDP). The agriculture sector provides employment to 44% of the country's labour force and 50% of labour employed are women.

The agriculture sector consists of crops, livestock, horticulture, fishing and forestry sub-sectors. The crop sub-sector can be further divided into major crops (like sugarcane, wheat, cotton and rice) and minor crops (like pulses, potatoes, onions and garlic). The crop sector suffers from old farming techniques and inefficient use of land and water resources and thus yield of crops has been declining.

Pakistan has enormous potential to significantly increase its agricultural produce but the growth is being hindered by inefficient and out dated farming and production techniques, ineffective use of land and water resources, poor hygiene and low food standards. However a lot can be achieved by improving productivity, ensuring safety and efficiency in food processing, efficient livestock management and employing new post harvest technologies. Also developing skills and capabilities of human resources and capacity building of the academia to undertake research and development in the agriculture sector is essential for the long-term growth of the sector. There are already few sophisticated agri-businesses involved in the dairy and food-processing sector, which serve as an example of the enormous potential in this sector.

Pakistan's agriculture sector presents many opportunities for British companies, some of those are:

- Sale of machinery and equipment – for processes across the value chain;
- Best practices in the livestock sector – animal breeding, health, nutrition and processing according to international standards;
- HR Training and capacity building, both at farm level and in manufacturing/ processing;
- Sharing of skills and technology;
- Collaborating in agri food science and research across the food chain;
- Development of fisheries and aquaculture sector according to international standards – management of fish stocks, research and development into sustainable technologies for processing and value addition;
- Advisory services and training which would help to restructure and modernise Pakistan's agriculture.

## **FINANCIAL SERVICES**

Pakistan's economic performance in the last few years has been unprecedented. During this period of economic transformation, the financial sector has evolved into a more progressive and dynamic module of the economy, both in response to the ongoing financial sector reforms and to the mounting financing needs of a rapidly expanding economy. Strong economic fundamentals and structural transformation of the financial sector, due to the dedicated implementation of the reform process, were the major contributing factors in the current composition of the financial sector and its growth in recent years. Furthermore, in response to the growing demands of financial globalisation, the financial system is starting to integrate with international financial markets, albeit at a gradual pace. Financial integration was particularly expedited in FY07 in which record high foreign portfolio investment was made in equity securities, both through the issuance of Global Depository receipts (GDRs) and in the stock market.

Banks and Non-Bank Financial Institutions (NBFIs) have witnessed around 50 cases of Mergers and Acquisitions (M&As) involving more than 150 financial institutions since the year 2000. Notably, 8 of the 30 M&A transactions involving commercial banks have been executed in 2006 alone. This suggests that the ongoing consolidation is well on its way to create new opportunities and challenges for the stakeholders of the financial sector.

Pakistan's financial services industry seems to be in good shape; however there is still a lot of room for growth. In Pakistan, only 17% of the population have bank accounts and less than 4% of the account holders' (5.5m) are borrowers. Borrowing trend is highly skewed – only 20,000 or 0.4% of all 5.5m borrowers account for 65% of all bank credit. Only 25% of bank deposits and 17% of total borrowers are from rural areas. Housing finance and loans are less than 1% of GDP.

Some major opportunities for the UK financial sector include:

- U.K. Expertise – Access to cross border finance and a broad range of international risk management services in which the London markets specialise;
- New & Innovative products – London's record of innovation in wholesale markets and consumer products will be beneficial to Pakistan;
- U.K. standards of professional training & financial qualifications;
- Greater involvement of the Financial Services Authority in explaining the principles behind UK regulatory system;
- There is still a lack of skills regarding housing and infrastructure financing – U.K. institutions can help reduce that skill gap.

## **EDUCATION & TRAINING**

Despite notable improvements, literacy rates are still low and according to the census in 2005, the literacy rate was 48.7% with marked differences between the urban (63.1%) and the rural (33.6%) population. Major problems include lack of quality education, basic facilities and inadequate school resources. Inaccessibility is a problem for certain populations. Lack of school infrastructure has resulted in low enrolment and high drop out rates. With an estimated population of 172 million (average age of 20) and a growing economy there is considerable demand for a skilled workforce.

Efforts are being made to bridge the gap between supply and demand. A Higher Education Commission (HEC) was established in 2002 by the Government to strengthen higher education, increase student enrolment and enhance the educational level by implementation of the Education Sector Reforms (ESR). There has been an increase in the number of private schools & colleges due to the deteriorating standards of the state system and a growing "middle class". The Cambridge exam system has gained immense popularity, as it is considered the only form of quality education.

Opportunities exist in the following areas:

- Educational material: The majority of current equipment is outdated, opportunities exist across the board, from basic equipment and services to the trend towards modern and progressive technologies and techniques such as blended learning, e-coaching, mentoring and web design;
- Special Needs Education (SNE) is not available in Pakistan and is an untapped area, the government had floated the idea to adopt SNE Centre;
- English Language Skills (ESL): This is a competitive market with many existing suppliers, but demand will continue to grow, UK suppliers have yet to enter market with the right approach;
- Vocational training: The concept of continuous professional development and training for staff is still emerging, and there is a demand for competence-based training in all areas;
- Introduction of new technologies: The growth of use of Information and Communications Technology and its tools in the field of education has seen tremendous growth in the recent past;
- Consultancy services: UK's expertise is appreciated in all areas of education, training and technology transfer, many local consultancy firms look for UK input or collaborations where possible;
- Training Centres for Teachers: Teacher training mainly for middle school and university teachers; focus is on teaching and learning methodology.

## **OIL & GAS (O&G)**

Pakistan's economy is heavily dependent on the Oil & Gas sector with about 79% of the primary energy requirements being met through hydrocarbon, which includes 56% indigenous supplies.

The government offers lucrative incentives to the investors in the Oil & Gas sector, which is evident from the fact that out of 26, sixteen are foreign petroleum companies operating in Pakistan, including 6 from the UK. The current Petroleum Policy allows 100% foreign equity and no restriction on repatriation of capital, profit and dividends. All applications for exploration licences are decided within 60 days.

The sector attracts by far the highest level of foreign direct investment in the country and raises significant revenue for the government. In 2007-8 Oil, Gas and Petro-Refining sector attracted total FDI worth US\$634m, which is 16.5% higher, than the FDI in 2006-07. Since FY2000-01 to date Oil & Gas Sector has received FDI worth US\$2.6 billion. The government's long-term goal is to create a competitive, efficiently run, financially viable and largely privatised O&G sector.

Due to the high import bill for the petroleum products the government is pursuing a policy to increase indigenous O&G production and promote E&P activity in the country. In the last three years, there is an increase of 17% and 62% in O&G production respectively. During the ongoing fiscal year (2007-8) the O&G production in the country is about 70,000-73,000 barrels of oil per day and 4 billion cubic feet gas per day respectively. In the last five years 95 exploration licenses have been granted to various E&P companies operating in Pakistan. Exploration activities in offshore have also started. As a result of this rapid expansion, this sector offers opportunities for the British companies.

CNG sector has emerged as one of the most prominent source of clean fuel for the transport sector and is growing rapidly. Pakistan has more than 2,227 CNG stations and government has issued over 6115 licenses. There are 1.55 million CNG vehicles and the monthly conversation rate is 14,000.

Pakistan presents immense opportunities in the O&G sector, namely:

- Exploration and drilling of new sites;
- Sale of high tech machinery and equipment – for processes across the value chain;
- HR and skills training of the workforce;
- Collaborating in research & development in the O&G sector;
- Environmental conservation techniques and technologies.

## **TELECOMMUNICATION**

In liberalisation of its telecom market, Pakistan is ahead of many other world countries, let alone their regional neighbours. However, the lack of full and objective information about this country led to cautious behaviour by foreign investors, who appeared only recently on the local telecom market, and rather in single cases. At the same time, the country's economy is growing; its large territory and population makes investment in the telecom infrastructure very effective. With a population of 172 million, there are more than 75 million subscribers and to which 2.7 million are added per month.

The government has already deregulated and privatised selected telecom services. The first mobile-phone policy was formalised on January 28th 2004 and opened the way for the licensing of new mobile phone operators through competitive auction bidding. In July 2003 government introduced a Telecommunications De-regulation Law. This allowed and encouraged the foreign companies to invest in the market. The centrepiece of the De-regulation Law is the establishment of two new categories of basic services licenses: Local loop (LL), for fixed line telecommunication within the 14 PTCL regions, and Long-distance and International (LDI), for connectivity between regions.

The promulgation of the Telecom (Re-organisation) Act in 1996 laid the foundation for the rapid development of the telecommunications sector. It has allowed the private investors to participate in the provision of new telecom services by establishing a quasi-independent regulator, the Pakistan Telecom Authority (PTA), to oversee the sector.

Areas of opportunities include:

- **Value Added Services (VAS):** The emergence of value added services (VAS) is one trend that is being followed closely and with great interest by industry analysts and policy makers. Most of the industry until now have been focused on investments in wireless infrastructure;
- **3G Service:** Major Mobile Operators in Pakistan Mobilink, Ufone, Warid, Telenor and Paktel are expected to start work on 3G/UMTS Network Deployment in 2008. The vendors like Motorola, NOKIA, Huawei, ZTE, Nortel Networks and Alcatel are already active in 3G/IMS domain in Pakistan's telecomm market;
- **Non-Voice Services:** At present entertainment based content is a big earner in the market. UK companies offering content such as games, gossip, music and media could do well. Corporate Services are going to be of particular interest. Consumer applications are niche as the average user is still voice focussed. A good local representation is essential for in market support;
- **Fixed Line Technologies:** As Broadband penetration is low, investment in fixed 'line' technologies (Wireline and Wireless) can deliver and trigger the broadband proliferation. Local Loop has also a lot of potential provided the investors are willing to take a long-term view.

**POWER**

Traditionally, the power generation sector has been one of the main targets for foreign investors in Pakistan. In 2005-6 Foreign Direct Investment (FDI) in this sector was US\$310.6m. Keeping in view the electricity demand pattern, the government is following short, medium and long-term plans announced in its current Power Generation Policy.

Pakistan has an ever increasing gap between power supply and demand, where the latter exceeds the former by around 4,000 – 5,000 MW and this gap is expected to grow unless power generation is encouraged.

The biggest problem facing the power sector in Pakistan is that the majority of the power (around 65%) is being generated by thermal power plants whose costs have increased significantly due to the sky rocketing oil & gas prices. If Pakistan is to improve its power economics it has to alter its energy mix and increase the share of power generation via hydel, coal and renewable energy sources.

Hydel power is one of the major sources of energy available in Pakistan with an estimated generation potential of 46,000 MW – so far only 6,500 MW is being generated. The Government of Pakistan (GoP) wants to increase the utilisation of other renewable sources of energy (wind, solar, biomass) and has envisaged that the share of renewables in the energy mix will be increased from the current 180 MW to 700 MW by 2010 and 9,700 MW by 2030.

There is considerable synergy between the UK and Pakistan in all facets of energy, and it is a market that welcomes British innovation. Out of 16 private independent power producers (IPPs) in the country the top two are from the UK.

Areas of focus for UK companies include:

- Professional advisory and consultancy services in the areas of financial, legal, technical consultancy, project management, system integration and HR training;
- Direct investment into electricity production where there is considerable scope for improving and managing the transmission and distribution network (which is under severe strain and needs upgrading);
- Possible market for technology, which could help with the management of power theft, pilferage, transmission and distribution losses;
- The potential to supply short and medium term rental power solutions;
- Renewable energy and energy conservation initiatives.

**HEALTHCARE & LIFE SCIENCES**

Pakistan's considerable improvement in health sector facilities over the past year is reflected in the existing vast network of healthcare facilities which consists of 965 Hospitals, 4916 Dispensaries, 4872 Basic Health Units, 1138 Maternal and Child Health Centres, 371 TB Centres and 1080 First Aid Points. The market size of Healthcare Equipment is estimated to be around US\$90 - 95 million, Diagnostic/Kits around US\$25 million and Scientific Equipment is worth around US\$1.6 Billion.

Currently, the pharmaceutical sector in the country is a sizeable industry with an annual turnover of approximately more than US\$ 1.2 billion. The industry meets 80% of the country's requirement with over 400 local manufacturing units and 30 multinational corporations.

Pakistan's healthcare sector presents significant opportunities for British companies, some of those are:

- Capacity Building - Planning, Co-ordination, Promotion and Development of Science and Technology; monitoring and evaluation of R & D projects; utilisation of manpower for scientific and technological research;
- Sale of medical devices including cancer diagnostic, medical imaging, ultrasonic scanning, plastic surgery equipment, and polymerise chain reaction technologies;
- Capacity building and collaborative research for assessing impact of climate change on glaciers of the Karakoram Himalaya;
- Establishment of an integrated telepathology, pathology imaging, and immunohistochemistry facilities in Pakistan;
- Establishment of medical clinics providing facilities of cosmetic surgery, dentistry, orthopaedic care and special institutions/ facilities dealing with children.
- Consultancy Services on GMP, MHRA and FDA approval to export OTC products in US and European Markets

## **CONSTRUCTION AND HOUSING INDUSTRY IN PAKISTAN**

Pakistan Government considers Housing and Construction as one of the major priority sectors for growth and poverty alleviation. The reasons are because it is labour intensive, and because it has backward and forward linkages with at least 40 other industries.

Currently, Pakistan has a housing backlog of over 6.5-m units, escalating with urbanization. There is a rising requirement for Office and large retail space and planned development of various Industrial Zones in different parts of the country.

The government has recently launched a scheme whereby it is aiming to construct one million homes for the poor and the needy. For this the government has already started building pilot project of 100,000 in each of the four provinces and has signed Memorandum of Understanding with firms from Canada, Egypt and Italy.

Also Pakistan has a huge need for infrastructure i.e. roads and bridges. Most local constructors have comparative advantage in small commercial buildings, small bridges and roads. Only a few sophisticated firms specialise in large earthwork and large construction work for civil engineering. Participation of foreign companies in Pakistan would not only benefit the respective countries to share their experiences in the construction sector but also generate employment opportunities to a great extent.

Main areas of opportunities for British companies are:

- Advisory and consultancy services – covering all areas like Designing, Architecture, Structure, Mechanical, Electrical, Plumbing, and Construction management;
- Sale of High tech construction equipment;
- Joint research in urban planning and construction management;

## **PAKISTAN HISTORY**

The Indus Valley civilisation, one of the oldest in the world and dating back at least 5,000 years, spread over much of what is presently Pakistan. During the second millennium BC, remnants of this culture fused with the migrating Indo-Aryan peoples. The area has witnessed invasions and settlement by the Aryans, Persians, Greeks, Arabs, Turks, Afghans and the Mongols. It was a part of British Raj from 1858 to 1947, when the Pakistan Movement for a state for Muslims, led by Muhammad Ali Jinnah and the Muslim League resulted in the independence and creation of the state of Pakistan. With the adoption of its constitution in 1956, Pakistan became an Islamic republic. In 1971, a civil war in East Pakistan resulted in the independence of Bangladesh. Pakistan's history has been characterised by periods of economic growth, military rule and political instability.

## **BACKGROUND**

The name *Pakistan* means *Land of (the) Pure* in Urdu and Persian. Officially known as the Islamic Republic of Pakistan, it is a country located in South Asia and borders Central Asia and the Middle East. It has a 1,046 kilometre (650 mile) coastline along the Arabian Sea and Gulf of Oman in the south, and is bordered by Afghanistan and Iran in the west, India in the east and China in the far Northeast. Tajikistan also lies adjacent to Pakistan but is separated by the narrow Wakhan Corridor.



Pakistan is the sixth most populous country in the world and has the second largest Muslim population in the world after Indonesia. The country is listed among the "Next Eleven" economies. Pakistan is a founding member of the Organisation of the Islamic Conference, South Asian Association for Regional Co-operation, Developing 8 Countries and the Economic Co-operation Organisation. It is also a member of the United Nations, Commonwealth of Nations, World Trade Organisation, G33 developing countries and the Group of 77 developing nations.

## **GOVERNMENT & POLITICS**

The President is the official Head of State and the Commander of the Armed Forces and is elected by an Electoral College. The legislature consists of two houses – the upper house, known as the Senate consists of 100 members and the Lower House, known as the National Assembly has 342 members. The Prime Minister heads the cabinet, and is usually the leader of the largest party in the National Assembly.

The National Assembly was elected in February 2008 for a five-year term. An election to the Senate, where the four provinces have equal representation, was held in March 2006. Senators serve terms of six years, and one-half of the seats in the upper house come up for re-election every three years. Provinces are represented in the National Assembly in proportion to the size of their populations.

### **GEOGRAPHY**

Pakistan is a land of much splendour. The scenery changes northward from coastal beaches, lagoons and mangrove swamps in the south to sandy deserts, desolate plateaus, fertile plains, dissected upland in the middle and high mountains with beautiful valleys, snow-covered peaks and eternal glaciers in the north. Pakistan has seven of the 16 tallest peaks in Asia. Three of the mightiest mountain systems- the Hindukush, the Karakoram and the Himalayas- adorn the forehead of Pakistan.



The variety of landscape divides Pakistan into six major regions: the North High Mountainous Region, the Western Low Mountainous Region, the Balochistan Plateau, the Potohar Uplands, the Punjab and the Sindh Plains.

Although the country is in the monsoon region, it is arid, except for the southern slopes of the Himalayas and the sub-Mountainous tract which have a rainfall from 76 to 127 cm. Balochistan is the driest part of the country with an average rainfall of 21 cm.

The cold season sets in by the middle of December when average minimum and maximum temperatures are 4C° and 18C°, though on occasions the mercury falls well below freezing point. The hot season is usually dry and humid, with temperatures varying from 25C° to 40C° and beyond.

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