Pakistan

RISK & COMPLIANCE REPORT

Date: October 2018

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Executive Summary - Pakistan	
Sanctions:	None
FAFT list of AML Deficient Countries	Yes
Higher Risk Areas:	Compliance with FATF 40 + 9 Recommendations US Dept of State Money Laundering assessment Supporter of or Safe Haven for International Terrorism Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.)) World Governance Indicators (Average score) Failed States Index (Political)(Average score) International Narcotics Control Majors List
Medium Risk Areas:	Weakness in Government Legislation to combat Money Laundering

Major Investment Areas:

Agriculture - products:

cotton, wheat, rice, sugarcane, fruits, vegetables; milk, beef, mutton, eggs

Industries:

textiles and apparel, food processing, pharmaceuticals, construction materials, paper products, fertilizer, shrimp

Exports - commodities:

textiles (garments, bed linen, cotton cloth, yarn), rice, leather goods, sports goods, chemicals, manufactures, carpets and rugs

Exports - partners:

US 13.3%, China 10.9%, UAE 8.6%, Afghanistan 8.5% (2012)

Imports - commodities:

petroleum, petroleum products, machinery, plastics, transportation equipment, edible oils, paper and paperboard, iron and steel, tea

Imports - partners: China 19.8%, Saudi Arabia 12%, UAE 11.9%, Kuwait 6.2% (2012)
Investment Restrictions: The Government of Pakistan (GOP) policy is to welcome foreign investment and offer some incentives to attract new capital inflows. Despite this openness to foreign direct investment (FDI), FDI stock has declined sharply in Pakistan over the last five years. Analysts attribute this decline to the deteriorating security environment, the chronic energy crisis, a lack of privatization since 2008, and macroeconomic instability. Foreign investors in the services sector may retain 100% equity "for the life of the investment." The minimum allowable equity investment in the non-financial services sector is US$150,000, and 100% repatriation of profits is allowed in the services sector. Investors need to obtain licenses from the Pakistan Telecommunication Authority in order to start a cellular operation network. In the social and infrastructure sectors, 100% foreign ownership is allowed, with a minimum investment requirement of US$300,000. In the agricultural sector, 60% foreign ownership is allowed. Corporate farming is permitted, though only companies incorporated in Pakistan can own land used for this use. The GOP is committed to providing full national treatment and legal protection to foreign investment in all but designated "sensitive" sectors which include defence and broadcasting.

Contents

Section 1 - Background

The Indus Valley civilization, 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 B.C., remnants of this culture fused with the migrating Indo-Aryan peoples. The area underwent successive invasions in subsequent centuries from the Persians, Greeks, Scythians, Arabs (who brought Islam), Afghans, and Turks. The Mughal Empire flourished in the 16th and 17th centuries; the British came to dominate the region in the 18th century. The separation in 1947 of British India into the Muslim state of Pakistan (with West and East sections) and largely Hindu India was never satisfactorily resolved, and India and Pakistan fought two wars - in 1947-48 and 1965 - over the disputed Kashmir territory. A third war between these countries in 1971 - in which India capitalized on Islamabad's marginalization of Bengalis in Pakistani politics - resulted in East Pakistan becoming the separate nation of Bangladesh. In response to Indian nuclear weapons testing, Pakistan conducted its own tests in 1998. India-Pakistan relations have been rocky since the November 2008 Mumbai attacks, but both countries are taking small steps to put relations back on track. In February 2008, Pakistan held parliamentary elections and in September 2008, after the resignation of former President MUSHARRAF, elected Asif Ali ZARDARI to the presidency. Pakistani government and military leaders are struggling to control domestic insurgents, many of whom are located in the tribal areas adjacent to the border with Afghanistan. In January 2012, Pakistan assumed a non-permanent seat on the UN Security Council for the 2012-13 term.

Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Pakistan is on the FATF List of Countries that have been identified as having strategic AML deficiencies

Latest FATF Statement - 19 October 2018

In June 2018, Pakistan made a high-level political commitment to work with the FATF and APG to strengthen its AML/CFT regime and to address its strategic counter-terrorist financing-related deficiencies. Pakistan will work to implement its action plan to accomplish these objectives, including by: (1) demonstrating that TF risks are properly identified, assessed, and that supervision is applied on a risk-sensitive basis; (2) demonstrating that remedial actions and sanctions are applied in cases of AML/CFT violations, and that these actions have an effect on AML/CFT compliance by financial institutions; (3) demonstrating that competent authorities are cooperating and taking action to identify and take enforcement action against illegal money or value transfer services (MVTS); (4) demonstrating that authorities are identifying cash couriers and enforcing controls on illicit movement of currency and understanding the risk of cash couriers being used for TF; (5) improving inter-agency coordination including between provincial and federal authorities on combating TF risks; (6) demonstrating that law enforcement agencies (LEAs) are identifying and investigating the widest range of TF activity and that TF investigations and prosecutions target designated persons and entities, and persons and entities acting on behalf or at the direction of the designated persons or entities; (7) demonstrating that TF prosecutions result in effective, proportionate and dissuasive sanctions and enhancing the capacity and support for prosecutors and the judiciary; and (8) demonstrating effective implementation of targeted financial sanctions (supported by a comprehensive legal obligation) against all 1267 and 1373 designated terrorists and those acting for or on their behalf, including preventing the raising and moving of funds, identifying and freezing assets (movable and immovable), and prohibiting access to funds and financial services; (9) demonstrating enforcement against TFS violations including administrative and criminal penalties and provincial and federal authorities cooperating on enforcement cases; (10) demonstrating that facilities and services owned or controlled by designated person are deprived of their resources and the usage of the resources.

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Pakistan was undertaken by the Financial Action Task Force (FATF) in 2009. According to that Evaluation, Pakistan was deemed Compliant for 6 and Largely Compliant for 8 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for all 6 of the Core Recommendations.

Key Findings from latest Mutual Evaluation Report (2009):

Pakistan has criminalized money laundering (ML) and terrorism financing (TF). Law enforcement authorities still find it difficult to gather evidence for the ML offence without conviction for the predicate offence. Some key predicate offences are missing. A wide range of terrorism financing acts is criminalized. There is no criminalization of the financing of individual terrorists or terrorist organizations, other than proscribed ones. Pakistan can freeze terrorist assets under UNSCR 1267. To implement UNSCR 1373, Pakistan uses a domestic proscription mechanism under the Anti-Terrorism Act 1997 (ATA). Associated freezing mechanisms do not extend to all types of asset. Domestic proscription is limited to certain types of organizations. Law enforcement and prosecution authorities have powers to prosecute ML and TF. They are currently not using these tools.

Pakistan set up its Financial Intelligence Unit (FMU) in December 2007. Pakistan has taken steps to make the FMU operational, but to perform its core functions effectively, the FMU requires more resources and a much higher inflow of STRs.

Pakistan has required its financial sector to adopt anti-money laundering/combating the financing of terrorism (AML/CFT) preventive measures for several years. The preventive measures have recently been expanded in scope (activities and obligations) by SBP, and eventually by SECP in April 2009, outside the review period. More stringent examination and enforcement is needed. Some progress on transparency has been achieved, but access to beneficial ownership of natural and legal persons is not ensured. Steps to implement effective measures to protect NPOs from abuse for terrorism financing purposes need to be further deepened.

Capacity to engage in mutual legal assistance and administrative cooperation is severely impaired for legal and procedural reasons.

The results achieved by the AML/CFT regime are not commensurate with the risks and threats facing Pakistan. To ensure efficient deployment of resources, both in the public and private sectors, and effectiveness, Pakistan should prepare as soon as possible a ML/TF risk-analysis, adopt at the highest level a national AML/CFT strategy and consolidate its institutional framework.

US Department of State Money Laundering assessment (INCSR)

Pakistan is categorised by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.

OVERVIEW

Pakistan is strategically located at the nexus of south, central, and western Asia, with a coastline along the Arabian Sea. Its porous borders with Afghanistan, Iran, and China facilitate the smuggling of narcotics and contraband to overseas markets. Significant money laundering predicates in the country include tax evasion, fraud, corruption, trade in counterfeit goods, contraband smuggling, narcotics trafficking, human smuggling/trafficking, and terrorist financing. The black market, informal financial system, and permissive security environment generate substantial demand for money laundering and illicit financial services.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Money laundering in Pakistan affects both the formal and informal financial systems. The Pakistan-Afghanistan border is largely unregulated, which facilitates the flow of illicit goods and monies into and out of Pakistan. Due to their distance from urban centers and the lack of comprehensive regulatory oversight, border areas - such as the jurisdiction of Chaman and the Torkham Gate area - see illicit financial activity by terrorist organizations and insurgent groups, such as money laundering by the Taliban. In fiscal year 2017, the Pakistani diaspora remitted U.S. $19.3 billion back to Pakistan via the formal banking sector, up a modest 1.4 percent from the previous year. Though it is illegal to operate a hawala or hundi without a license in Pakistan, the practices remain prevalent due to a lack of access to the formal banking sector, poor supervision and regulation, and a lack of penalties levied against illegally operating businesses. Unlicensed hawala/hundi operators are also common throughout the broader region and are widely used to transfer and launder illicit money through neighboring countries.

Common methods for transferring illicit funds include fraudulent trade invoicing; MSBs, to include unlicensed hundis and hawalas; and bulk cash smuggling. Criminals exploit import/export firms, front businesses, and the charitable sector to carry out illicit activities. Pakistan’s real estate sector is another common money laundering vehicle, since real estate transactions tend to be poorly documented and cash-based.

Additionally, the Altaf Khanani money laundering organization (Khanani MLO) is based in Pakistan. The group, which was designated a transnational organized crime group by the United States in November 2015, facilitates illicit money movement globally and is responsible for laundering billions of dollars in organized crime proceeds annually. The Khanani MLO offers third-party money laundering services to a diverse clientele, including Chinese, Colombian, and Mexican organized crime groups and individuals associated with designated terrorist organizations. Altaf Khanani plead guilty in the United States to money laundering conspiracy charges and was sentenced in March 2017 to 68 months in prison.

KEY AML LAWS AND REGULATIONS

In January 2015, Pakistan issued its National Action Plan (NAP), primarily addressing counter-terrorist financing. Despite frequent calls by the international community for the plan’s implementation, the NAP yields mixed results, remains largely non-operational, and lacks the support of institutional capacity and political will for its implementation.

Pakistan is a member of the APG, a FATF-style regional body.

AML DEFICIENCIES

Unlicensed hawaladars continue to operate illegally throughout Pakistan, particularly in Chaman, Peshawar, and Karachi. In addition, bulk cash smuggling continues to be a problem, with authorities failing to implement adequate control measures at borders and airports. Moreover, there have been instances of staff of Pakistan’s national airline (Pakistan International Airlines) being involved in bulk cash smuggling.

Pakistan's FIU forwards a limited number of STRs to Pakistan's Federal Investigation Agency (FIA), the agency responsible for investigating money laundering cases. In turn, the FIA lacks the capacity and resources to pursue financial investigations.

Pakistan's FIU is not a member of the Egmont Group.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The United States and Pakistan do not have a MLAT but are parties to multilateral conventions that include provisions for assistance. Extradition between the United States and Pakistan is governed by the 1931 U.S.-U.K. Extradition Treaty.

In recent years, the Government of Pakistan has taken steps to address technical compliance with international AML standards; however, deficiencies remain in their implementation. Pakistani authorities should investigate and prosecute money laundering (in addition to the predicate offense creating the laundered proceeds). The Government of Pakistan should demonstrate effective regulation over exchange companies; implement effective controls for cross-border cash transactions; and develop an effective asset forfeiture regime. Pakistan also should design and publicly release metrics that track progress in combating money laundering, such as the number of financial intelligence reports received by its FIU and the annual number of money laundering indictments, prosecutions, and convictions. Pakistani law enforcement and customs authorities should address TBML and value transfer, particularly as it forms the basis for account-settling between hawaladars.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, PAKISTAN does not conform with regard to the following government legislation: -

According to the US State Department, Pakistan does not conform with regard to the following government legislation: -

Record Large Transactions: By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.

System for Identifying/Forfeiting Assets: The jurisdiction has enacted laws authorizing the tracing, freezing, seizure, and forfeiture of assets identified as relating to or generated by money laundering activities.

Arrangements for Asset Sharing: By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

International Transportation of Currency: By law or regulation, the jurisdiction, in cooperation with banks, controls or monitors the flow of currency and monetary

EU White list of Equivalent Jurisdictions

Pakistan is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

Failed States Index

To view Failed States Index Ctrl + Click here

Offshore Financial Centre

Pakistan is not considered to be an Offshore Financial Centre

Key Findings from other US State Department Reports:

Trafficking in Persons

Pakistan is classified a Tier 2 (Watch list)country - A country whose governments does not fully comply with the Trafficking Victims Protection Act's minimum standards, but are making significant efforts to bring themselves into compliance with those standards

PAKISTAN: Tier 2 Watch List

Pakistan is a source, transit, and destination country for men, women, and children subjected to forced labor and sex trafficking. The country's largest human trafficking problem is bonded labor, in which an initial debt assumed by a worker as part of the terms of employment is exploited, ultimately entrapping other family members, sometimes for generations. Bonded labor is concentrated in Sindh and Punjab provinces, but also occurs in Balochistan and Khyber Pakhtunkhwa provinces, in agriculture and brick-making and, to a lesser extent, in fisheries, mining, and carpet-making. Some feudal landlords and brick kiln owners are affiliated with political parties or hold government positions and use their influence to protect their involvement in bonded labor. In some cases, when bonded laborers attempt to escape or seek legal redress, police return them to their traffickers, who hold laborers and their families in private jails. Children are bought, sold, rented, or kidnapped and placed in organized begging rings, domestic servitude, small shops, brick kilns, and prostitution. Begging ringmasters sometimes maim children to earn more money. NGOs report boys are subjected to sex trafficking around hotels, truck stops, bus stations, and shrines. Illegal labor agents charge high recruitment fees to parents in return for employing their children, some of whom are subjected to forced labor and sex trafficking. Trafficking experts describe a structured system for exploiting women and girls in sex trafficking, including offering victims for sale in physical markets. Reports indicate police accept bribes to ignore prostitution in general, some of which may include sex trafficking. Women and girls are sold into forced marriages; in some cases, their new "husbands" prostitute them in Iran or Afghanistan. In other cases, including some organized by extra-judicial courts, girls are used as chattel to settle debts or disputes. Non-state militant groups kidnap children, buy them from destitute parents, or coerce parents with threats or fraudulent promises into giving their children away; these armed groups force children to spy and fight in Pakistan and Afghanistan. Pakistan's large number of internally displaced persons, due to natural disasters and domestic military operations, are vulnerable to trafficking.

Pakistani men and women migrate voluntarily to the Gulf states and Europe for low-skilled employment—such as domestic service, driving, and construction work; some become victims of labor trafficking. False job offers and high recruitment fees charged by illegal labor agents or sub-agents of licensed Pakistani overseas employment promoters entrap Pakistanis into sex trafficking and bonded labor. Some Pakistani children and adults with disabilities are forced to beg in Iran. Pakistan is a destination country for men, women, and children subjected to forced labor—particularly from Afghanistan, Bangladesh, and Sri Lanka. Women and girls from Afghanistan, China, Russia, Nepal, Iran, Bangladesh, Uzbekistan, and Azerbaijan are reportedly subjected to sex trafficking in Pakistan. Refugees from Afghanistan, Bangladesh, and Burma, as well as religious and ethnic minorities such as Christians and Hazaras, are particularly vulnerable to trafficking in Pakistan.

The Government of Pakistan does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government approved its national strategic framework against trafficking in persons and human smuggling and reported an increase in the number of victims provided shelter in 2015 compared with 2014. The federal government and Punjab and Khyber Pakhtunkhwa provinces passed trafficking-related legislation, and some provinces investigated, prosecuted, and convicted traffickers. Despite these measures, the government did not demonstrate overall increasing anti-trafficking efforts compared to the previous reporting period; therefore, Pakistan is placed on Tier 2 Watch List for the third consecutive year. Per the Trafficking Victims Protection Act, Pakistan was granted a waiver from an otherwise required downgrade to Tier 3 because its government has devoted sufficient resources to a written plan that, if implemented, would constitute significant efforts to meet the minimum standards. While the government continued to investigate, prosecute and convict traffickers, the overall number of convictions was inadequate, especially for labor trafficking, and law enforcement continued to conflate human trafficking and migrant smuggling. Despite bonded labor being the largest trafficking problem in Pakistan the government only reported seven convictions for bonded labor in 2015. The government does not prohibit and penalize all forms of human trafficking, and prescribed penalties for forced labor that allowed for fines alone were not sufficiently stringent to deter the crime. Official complicity in trafficking crimes remained a serious problem yet the government reported no investigations, prosecutions, or convictions of complicit officials. Government protection efforts were weak. While a small number of the total victims identified were given shelter, it is unclear what other rehabilitation services victims were provided, especially male victims, and observers alleged traffickers accessed women in some of the shelters and forced them into prostitution.

Narcotics - 2017

Introduction

Pakistan continues to be one of the world's top transit corridors for opiates and cannabis, which are trafficked through the porous border area with Afghanistan and Iran. Illicit narcotics are then distributed globally through Pakistan's seaports, airports, postal services, and unpatrolled coastal areas. The United Nations Office on Drugs and Crime (UNODC) estimates Pakistan is the destination and transit country for approximately 40 percent of the opiates produced in Afghanistan. While Pakistan is also a producer of illicit opium, as well, overall poppy grown in Pakistan has decreased by an estimated 80 percent from 2013 to 2015, according to U.S. estimates. Pakistan is also a major transit country for precursor chemicals used in the production of heroin and methamphetamines.

In 2016, Pakistan's law enforcement agencies made multiple noteworthy seizures and arrested more than 55 traffickers designated as U.S. Drug Enforcement Administration (DEA) priority targets. Pakistan's Anti- Narcotics Force (ANF), the country's lead counternarcotics agency, reported that during the first nine months of 2016, it seized approximately 15.23 metric tons (MT) of heroin, 33.18 MT of opium, 482 kilograms (kg) of cocaine, and 168.53 MT of hashish. Overall 2016 seizures represent a 52 percent increase over 2015, and the total volume of cocaine seized in 2016 increased nearly 17-fold. The Government of Pakistan's budget limitations continued to hinder drug control efforts.

Domestic drug consumption continues to be a problem. According to a 2013 UNODC nationwide survey, Pakistan is home to 6.7 million drug users, and approximately 20 MT of heroin is consumed within the country annually. Because Pakistan lacks the capacity to properly treat substance use disorder and educate its people about the dangers of illicit narcotics, the problem continues to grow.

Conclusion

Although Pakistan continues to face enormous economic and security challenges that often supersede narcotics trafficking in national security priorities, many of these challenges are interconnected. By utilizing the already established Inter-Agency Task Force and encouraging greater intelligence sharing among its law enforcement and military entities, Pakistan could more effectively reduce drug trafficking and encourage its law enforcement agencies to coordinate more closely, share information more readily, and expend limited resources more efficiently.
This would also combat the nexus between drug trafficking and the funding of terrorist networks. Increased public awareness about the drug trade and its negative societal influences would further solidify concerted government action across law enforcement agencies.

Terrorist Financing 2016:

Pakistan is currently identified by the US Secretary of State as a Safe Haven for International Terrorism

Overview: Pakistan remained an important counterterrorism partner in 2016. Violent extremist groups targeted civilians, officials, and religious minorities. Major terrorist groups focused on conducting terrorist attacks in Pakistan included the Tehrik-e Taliban Pakistan (TTP), Jamaat-ul-Ahrar (JuA), and the sectarian group Lashkar-e-Jhangvi (LeJ). Islamic State's Khorasan Province (ISIS-K) claimed several major attacks against Pakistani targets, likely conducted in collaboration with other terrorist groups. Groups located in Pakistan, but focused on conducting attacks outside the country, included the Afghan Taliban, the Haqqani Network (HQN), Lashkar e-Tayyiba (LeT), and Jaish-e-Mohammad (JeM).

The number of terrorism-related civilian deaths in 2016 was approximately 600, far lower than the peak years of 2012 and 2013, when terrorist acts killed more than 3,000 civilians each year (according the South Asia Terrorism Portal). Terrorists used a range of tactics – stationary and vehicle-borne improvised explosive devices (IEDs), suicide bombings, targeted assassinations, and rocket-propelled grenades – to attack individuals, schools, markets, government institutions, and places of worship. The Pakistani government continued to implement the national action plan against terrorism with uneven results. Progress remained slow on regulating madrassas, blocking extremist messaging, empowering the National Counter Terrorism Authority (NACTA), cutting off terrorist financing, and strengthening the judicial system. Despite its extensive security infrastructure, the country suffered major attacks, particularly in Balochistan.

The Pakistani military continued operations in Khyber and North Waziristan to eliminate anti-state militants. Security forces in urban areas, including the paramilitary Sindh Rangers in Karachi, arrested suspected terrorists and interrupted plots. In the aftermath of a high-profile terrorist attack at a Lahore park, the Rangers were also called temporarily into southern Punjab for law enforcement operations against militant groups. Many commentators credited the military operations for the reduced number of terrorism-related civilian deaths in Pakistan.

The Pakistan government supported political reconciliation between the Afghan government and the Afghan Taliban, but failed to take significant action to constrain the ability of the Afghan Taliban and HQN to operate from Pakistan-based safe havens and threaten U.S. and Afghan forces in Afghanistan. The government did not take any significant action against LeT or JeM, other than implementing an ongoing ban against media coverage of their activities. LeT and JeM continued to hold rallies, raise money, recruit, and train in Pakistan.

The Pakistan government has not joined the Global Coalition to Defeat ISIS, although it designated ISIS as a terrorist organization in 2015. Police and security forces detained and killed a substantial number of ISIS-affiliated terrorists.

Legislation, Law Enforcement, and Border Security: The Government of Pakistan continued to implement the Antiterrorism Act (ATA) of 1997, the National Counterterrorism Authority Act, the 2014 Investigation for Fair Trial Act, and 2014 amendments to the ATA, all of which allow enhanced law enforcement and prosecutorial powers for terrorism cases. Special courts under the ATA hear terrorism cases. The law allows preventive detention against suspects.

Under the 21st amendment to the Pakistani Constitution, passed in January 2015, military courts were empowered to hear terrorism cases through 2016. The government reinstated the death penalty for terrorism offenses after the Peshawar school attack in 2014. In August 2016, the Pakistani Supreme Court rejected an appeal and approved 16 death sentences for terrorism handed down by a military court, the first ruling by the Supreme Court that addressed capital sentences by military courts.

Military, paramilitary, and civilian security forces conducted counterterrorism operations throughout Pakistan. The NACTA received a significant budget in July. The Intelligence Bureau has nationwide jurisdiction and is empowered to coordinate with provincial counterterrorism departments. The Ministry of Interior has more than 10 law enforcement-related entities under its administration, although some are under the operational control of the military. Each province has a counterterrorism department within its police force.

While the counterterrorism and anti-crime operations of the paramilitary Rangers in Karachi led to reduced levels of violence in the city, the media published allegations that the Rangers also targeted certain political parties for political reasons. The Sindh provincial government agreed to extend the mandate of the paramilitary Rangers for counterterrorism and anti-crime operations for 90 days on October 17.

The Punjab Counterterrorism Department raided a religious minority Ahmadi organization in Rabwah on December 5, ostensibly acting under counterterrorism laws against hate speech.

The Federal Investigation Agency (FIA) is responsible for border control at airports, seaports, and some land crossings. The paramilitary Rangers are responsible for border patrol in Punjab and Sindh, while the Frontier Corps do so in Khyber Pakhtunkhwa, the Federally Administered Tribal Areas, and Balochistan, with the help of provincial police and tribal militias. Pakistan collects biometric information at land crossings with its International Border Management Security System. Authorities had limited ability to detect smuggling via air travel. The Federal Board of Revenue's Customs Service attempted to enforce anti-money laundering laws and foreign exchange regulations at all major airports, in coordination with the Airport Security Force and the FIA. Customs' end use verification project managed the entry of dual-use chemicals for legitimate purposes, while attempting to prevent their diversion for use in IEDs.

The continuous military operations in Khyber and North Waziristan eliminated significant numbers of militants and removed safe havens for terrorist groups such as TTP. On September 1, the military's head of public relations announced that more than 300 ISIS members had been arrested and claimed the group's attempt to establish itself in Pakistan had been foiled. However, ISIS's regional affiliate, ISIS-K, claimed subsequent attacks and authorities announced further arrests of suspected ISIS militants. On September 26, NACTA announced it had frozen the bank accounts of 8,400 individuals and was working to revoke their travel documents, based on their inclusion on the Schedule IV list of ATA for suspected ties to terrorism.

On December 5, a military court sentenced Naeem Bukhari to death for "heinous offenses related to terrorism." Bukhari was the alleged planner of the 2002 murder of American journalist Daniel Pearl in Karachi, in addition to many other terrorist acts. However, officials told the media the criminal charges leading to the sentence did not include the Daniel Pearl killing. Law enforcement officials continued to pledge assistance in apprehending U.S. citizen fugitives in Pakistan, but the process was cumbersome, requiring the U.S. Department of Justice to hire private attorneys to work with Pakistani prosecutors to move cases forward.

The trial of seven suspects in the 2008 Mumbai terrorist attack remained stalled, with many witnesses for the prosecution remaining to be called by the court. The lead defendant, alleged LeT operational commander Zaki-ur Rehman Lakhvi, remained free on bail.

Specialized law enforcement units often lacked the equipment and training needed to implement the enhanced investigative powers provided by counterterrorism legislation. Interagency information sharing was sporadic with no integrated database capability. NACTA did not make significant progress in operationalizing the Joint Intelligence Directorate, intended to coordinate civilian and military counterterrorism information sharing. ATA courts moved slowly in processing terrorism cases due to the overly broad definition of terrorism offenses in the ATA. Some ATA courts attempted to transfer cases that were not terrorism-related back to the regular courts. Prosecutors had a limited role during the investigation of terrorism cases, and jurisdictional divisions among military and civilian security agencies hampered investigations and prosecutions, which sometimes also lacked sufficient evidence. Terrorist groups intimidated witnesses, police, victims, prosecutors, defense lawyers, and judges. All of these factors contributed to high acquittal rates in ATA courts.

The Department of State carried out some counterterrorism training in Pakistan, but had to conduct certain programs in third countries due to the government's non-issuance of visas for trainers. In September, the Ministry of Interior cancelled all training inside Pakistan under the State Department's Anti-Terrorism Assistance program.

Countering the Financing of Terrorism: Pakistan is a member of the Asia Pacific Group on Money Laundering, a Financial Action Task Force (FATF)-style regional body. Pakistan criminalizes terrorist financing through the ATA. However, there has not been a significant number of prosecutions or convictions of terrorist financing cases reported by Pakistan in recent years due to a lack of resources and capacity within investigative and judicial bodies.

In 2015, FATF removed Pakistan from its review process due to progress on countering the financing of terrorism (CFT). In October 2016, FATF noted concern among members that Pakistan's outstanding gaps in the implementation of the UN Security Council ISIL (Da'esh) and al-Qa'ida sanctions regime had not been resolved, and that UN-listed entities – including LeT and its branches – were not being effectively prohibited from raising funds in Pakistan. Despite Pakistan's CFT laws, its freezing of several relevant bank accounts from March 2015 to March 2016, and other limited efforts to stem fundraising by LeT, the group and its wings continued to make use of economic resources and raise funds in the country in 2016. Pakistan's ban on media coverage also did not appear to reduce the ability of LeT to collect donations.

Pakistan's national action plan includes efforts to prevent and counter terrorist financing, including by enhancing interagency coordination on CFT. Pakistan's National Terrorists Financing Investigation Cell, operated by the Federal Investigations Agency, Federal Board of Revenue, the State Bank, and intelligence agencies, tracks financial transactions between the national and international banking systems. Additionally, NACTA coordinates with all relevant agencies to counter terrorism and terrorist financing.

The Anti-Money Laundering Act (AMLA) of 2010 designates the use of unlicensed *hundi* and *hawala* systems as predicate offences to terrorism and also requires banks to report suspicious transactions to Pakistan's financial intelligence unit, the State Bank's Financial Monitoring Unit. Although unlicensed *hawala* operators are illegal in Pakistan, these unlicensed money transfer systems persist throughout the country, especially along Pakistan's border with Afghanistan, and were open to abuse by terrorist financiers operating in the cross-border area.

International Sanctions

Pakistan is not currently subject to any International Sanctions

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	32
World Governance Indicator – Control of Corruption	19

Corruption is a significant obstacle to business in Pakistan, and companies should expect to regularly encounter bribery or other corrupt practices. Corruption is rampant in all sectors and institutions. The Pakistani Penal Code applies to individuals and makes it illegal to offer, pay or accept a bribe. Companies can be held civilly liable under the Prevention of Corruption Act and the National Accountability Ordinance. Facilitation payments and gifts are prohibited but are common practice. Pakistan does not ensure integrity in state bodies and is unable to prevent corruption despite strong institutional and legal frameworks. **Information provided by GAN Integrity.**

US State Department

Corruption remains widespread in Pakistan, especially in the areas of government procurement, international contracts, and taxation. Giving and accepting bribes are criminal acts punishable by confiscation of property, imprisonment, recovery of ill-gotten gains, dismissal from governmental service, and reduction in governmental rank. In 2013, Pakistan ranked 127 in the Transparency International Corruption Perceptions Index.

Pakistani law provides for criminal penalties for official corruption; however, implementation of the law is ineffective, and officials frequently engage in corrupt practices with impunity. The National Accountability Bureau (NAB), organized under the 1999 National Accountability Ordinance, serves as the highest-level anti-corruption organization, with a mandate to eliminate corruption through awareness, prevention, and enforcement. Initially focusing its efforts on well-known politicians and government officials guilty of gross abuses of power and stealing public funds, the NAB refocused its strategy in 2002 after citizens and human rights groups accused the agency of being a political tool for the detention of former officials and party leaders, as well as serving as a means to deviate from the normal justice system. The NAB struggles with poor funding and limited staffing.

The Competition Commission of Pakistan seeks to prohibit corrupt activities, such as collusive practices, abuse of market dominance, and deceptive marketing. Despite dynamic leadership, active community engagement, and lower-level court decisions against businesses engaged in anticompetitive activities, the Competition Commission is hindered by insufficient government funding and slow progress of its cases in the judicial court of appeals. Corruption is pervasive in politics and government, and various politicians and public office holders have faced allegations of corruption, including bribery, extortion, cronyism, nepotism, patronage, graft, and embezzlement.

A 2007 National Reconciliation Ordinance (NRO), promulgated under former president Pervez Musharraf, provided an amnesty mechanism for public officials who were accused of corruption, embezzlement, money laundering, murder, and terrorism between January 1, 1986, and October 12, 1999. In December 2009, the Supreme Court declared the NRO null and void, and reopened all 8,000 cases against those who had received amnesty, including the president, ministers, and parliamentarians. The Supreme Court decisions about the beneficiaries of NRO are still pending implementation.

Corruption within the lower levels of the police and customs officials is common. Transparency International notes that the major cause of corruption was lack of accountability and enforcement of penalties, followed by lack of merit and low salaries. According to a survey, some police charge fees to register genuine complaints and accept money for registering false complaints. Bribes to avoid charges are commonplace. Critics charge that the appointment of station house officers (SHOs) is politicized.

Widespread allegations of corruption plagued the government's rental power plant projects (RPP), which were a priority in 2008-2009 to address the country's acute energy shortage. Citizens and parliamentarians accused government officials of providing financial kickbacks and awarding extravagantly priced rental power plants to their close acquaintances. In December 2010 and January 2011, the Supreme Court found two power companies guilty of receiving more than 970 million rupees (then $11.2 million) in advance payments to provide electricity but failing to commence commercial operations by the agreed date. The court ordered both companies to return the funds advanced, and the government abandoned the RPP power project as a policy priority. The Supreme Court of Pakistan gave a decision against RPPs on March 30, 2012 declaring their contracts null and void and their intentions as mala fide. Currently the National Accountability Bureau is investigating the RPP case.

Anecdotal reports persist about corruption in the district and sessions courts, including reports of small-scale facilitation payments requested by court staff. Lower-court judges lack the requisite independence and sometimes are pressured by superior court judges as to how to decide a case. Lower courts remain corrupt, inefficient, and subject to pressure from prominent wealthy, religious, and political figures. Government involvement in judicial appointments increases the government's control over the court system.

The 2002 Freedom of Information Ordinance allows any citizen access to public records held by a public body of the federal government, including ministries, departments, boards, councils, courts, and tribunals. It does not apply to government-owned corporations or provincial governments. The bodies must respond to requests for access within 21 days. Certain records are restricted from public access, including classified documents, those that would be harmful to a law enforcement case or an individual, or those that would cause grave and significant damage to the economy or the interests of the nation. NGOs criticized the ordinance for having too many exempt categories and for not encouraging proactive disclosure.

Pakistan is not a signatory to the OECD Convention on Combating Bribery, but it is a signatory to the Asian Development Bank/OECD Anti-Corruption Initiative. Pakistan has also ratified the UN Convention against corruption.

Corruption and Government Transparency - Report by Global Security

The most recent elections took place July 2013, with the Muslim League (PML-N) defeating the Pakistan People's Party (PPP) to become the ruling party. Mamnoon Hussain, a veteran Pakistani politician from the PML-N, was elected the president and will officially take over the government 9 September 2013. Nawaz Sharif has also been elected as the prime minister. According to the Guardian in July 2013, Hussain has been an active member of the PML-N since the 1960s, but resigned his membership from the party soon after the election. This symbolic move indicates Hussain's will attempt to establish himself as a non-partisan president.

The administration in Pakistan faces huge challenges in rebuilding the country's stability and the confidence of foreign investors, as well as in fighting Pakistan's endemic levels of corruption, which according to Freedom House 2013, is widespread in politics and government. The US Department of State 2013 also emphasises that corruption is pervasive among government officials and that various public office holders face allegations of corruption, including bribery, extortion, cronyism, nepotism, patronage, graft, and embezzlement. Corruption involving high ranking officials, including President Zardari, who previously served 11 years in prison on corruption and murder charges, despite never being convicted and all charges eventually being dropped, as reported in a 30 July 2013 news article by Dawn. According to the US Department of State 2012, the Supreme Court annulled the National Reconciliation Ordinance, which provided President Zardari and several thousands of public officials with immunity, so that corruption charges could again be opened against leaders in the Zardari government. A month later, January 2010, the Zardari government filed a petition challenging the court's 2009 decision and requesting its review, yet the Supreme Court dismissed the government's review petition, upholding its earlier decision. Subsequently, the country's anti-corruption agency has made a request to Switzerland to re-open a money-laundering case against President Zardari. However, according to a December 2011 article by Pakistan Today, the government decided not to dispatch a letter to the Swiss authorities, as President Zardari enjoys indemnity under Article 248 of the Constitution. However, the Independent reported in September 2012 that Zardari is likely to face charge from the Pakistan court after he has finished his presidency. The same report states that the Swiss authority is unable to reopen the case against Zardari due to the fact that no new evidence has been found and the case has expired, as Zadari's offences took place more than 15 years ago. According to the Bertelsmann Foundation 2012, corruption charges are used by local governments and intelligence agencies to intimidate, blackmail, or to neutralise political opponents. However, awareness of the value of holding politicians to account is strong, and corrupt officeholders have received negative publicity. As a result, it has been possible to prevent the re-election of some politicians with a reputation for being corrupt.

A lack of political will, coupled with the perceived co-option of the judiciary and the arbitrariness of many anti-corruption proceedings, pose a major obstacle in the fight against corruption. According to the Transparency International Global Corruption Barometer 2013, political parties are perceived as the third most corrupt institution in Pakistan. Transparency International National Corruption Perception Survey 2010 explains in the article that the country has lost PKR 1,100 billion to corruption in 2011, compared to PKR 825 billion in 2010 and PKR 450 billion in 2009. The organisation further notes that there has been no check on corruption, as the anti-corruption institutions, the National Accountability Bureau and the Federal Investigation Agency, have sometimes sided with the corrupt by distorting and manipulating evidence in favour of the accused. This development is further emphasised in Transparency International Global Corruption Barometer 2013, according to which, 69% of households surveyed consider the current government's efforts in the fight against corruption to be 'ineffective' and 'very ineffective'. Furthermore, 72% of household respondents perceive the level of corruption in Pakistan to have increased in the past two years

Business and Corruption

According to June 2013 new articles published by Dawn and rfi, the new government of Pakistan led by President Mamnoon Hussain and Prime Minister Nawaz Sharif has promised to tackle rampant corruption in the country. Fighting corruption, continuing economic reform, and improving infrastructure, including the electric supply, are among the top political priorities of the new government.

As corruption is omnipresent in Pakistan, business is seriously impeded by it. According to the World Economic Forum Global Competitiveness Report 2012-2013, in which companies point to corruption as the most problematic factor for doing business in the country, after government instability. Business executives surveyed by the same source report that public funds are also regularly diverted to companies, individuals, or groups due to corruption. Companies should also note that, land administration is perceived as the most corrupt institution followed by police in the Transparency International Pakistan National Corruption Perception Survey 2011. Companies involved in import-export activities are affected by tax corruption, according to the US Commercial Service 2011. The same survey reports that foreign investors often use local agents in order to facilitate distribution and to provide market intelligence. Furthermore, investors are legally liable for the corrupt behaviour of agents acting on their behalf, and therefore, companies are generally advised to develop, implement, and strengthen integrity systems and to carry out extensive due diligence prior to committing funds and when already doing business in the country.

Pakistan's military engages in corruption in relation to defence procurement, as well as other sectors of the economy, including among others land, construction, property, and banking, as reported in Transparency International Global Corruption Report 2008. The same source also reports that the military controls an enormous private business empire. The Defence Housing Authority, the five main military foundations, and the thousands of small and large companies that they control benefit from hidden subsidies from a national budget controlled by their ultimate beneficiary—the military elite—and can plead national interest as a way of justifying their activities. According to the Transparency International Global Corruption Report 2009, corruption in the privatisation in Pakistan is endemic and manipulation of the process can be found at all stages. A case in point is the privatisation of Pakistan Steel Mills (PSM), which was sold by General Musharraf to a consortium for PKR 21.58 billion, when it was estimated to be worth PKR 72 billion. The Supreme Court ruled against this privatisation, citing disregard for the mandatory rules and information necessary for arriving at a fair sale price. Therefore, companies are recommended to use a specialised public procurement due diligence tool in order to reduce corruption risks related to public procurement in Pakistan

Regulatory Environment

Although steps towards establishing a more efficient business environment have been taken, operating a business can be a cumbersome and slow affair in Pakistan. According to the World Economic Forum Global Competitiveness Report 2012-2013, business executives identify corruption as the most problematic factor for doing business in Pakistan, while inefficient government bureaucracy is the second most problematic. Furthermore, the same report assesses the burden of government regulations, transparency of government policy-making, and policy stability as a 'competitive disadvantage' for doing business in the country. In an effort to curb corruption and excessive red tape, Pakistan is attempting to eliminate several bureaucratic measures. For example, the government has introduced a simple 5% customs duty on imported machineries for the manufacturing sector. Furthermore, according to the World Bank & IFC Doing Business 2011, the government introduced new equipment and improved electronic communication between the Karachi Port authorities and the private terminals, thus shortening the time needed to export goods. According to the World Bank & IFC Doing Business 2013, starting a company in Pakistan is relatively easier than it was in the previous years, requiring 10 procedures and taking an average of 21 days. The cost of GNI per capita, however, has increased to 9.9%. Nevertheless, no minimum capital is required to start up a company.

Furthermore, the tax regime in Pakistan is much more complex and time-consuming compared to the regional averages, as illustrated in the World Bank & IFC Doing Business 2013. The US Department of State 2013 also notes that foreign investors have complained that when operating in Pakistan, they are faced with a complex set of taxes and control measures, both at federal and provincial levels. These taxes have been assessed with significant administrative discretion, resulting in discrimination among taxpayers, inefficiency, and corruption. Companies face a situation of uncertainty regarding economic policies and their implementation, as public officials enjoy a high level of discretionary power, which enables them to interpret laws as they see fit and encourages corrupt practices and favouritism. Business executives surveyed by the World Economic Forum Global Competitiveness Report 2012-2013 report that government officials usually favour well-connected companies and individuals when deciding on policies and contracts. Corruption is also rife in the process of obtaining licences and documents. The results of the above are time-consuming procedures and increased costs. For example, according to the World Bank & IFC Doing Business 2013, obtaining a construction permit requires a company to go through 11 procedures and takes an average of 222 days at a cost of 216% of per capita income.

According to the US Department of State 2013, although Pakistan's legal framework and economic strategy do not discriminate against foreign investment, protection of property rights and contract enforcement is perceived to be problematic because of the irregularities and corruption in the judicial system. Moreover, the US Department of State 2012 reports that the judiciary is often subject to external influences, such as fear of reprisal in terrorism cases. In non-political cases, the media and the public generally consider the high court and the Supreme Court credible. However, lower courts continue to be plagued by corruption, inefficiency, and pressure from prominent wealthy, religious, and political figures. The business community generally has a low degree of confidence in the Pakistani legal system, and does not consider the legal framework for settling disputes and challenging regulation to be efficient, as illustrated in the World Economic Forum Global Competitiveness Report 2012-2013. Pakistan has been a member of the New York Convention of 1958 since 2005, but the ordinance implementing the Convention expired in August 2010. A bill to rectify this was passed by the National Assembly in November and is now waiting for a final approval from the Senate. Pakistan is a member of the International Centre for the Settlement of Investment Disputes (ICSID); thus, in principle, arbitration should be secure. Access the Lexadin World Law Guide for a collection of legislation in Pakistan.

Section 3 - Economy

Decades of internal political disputes and low levels of foreign investment have led to slow growth and underdevelopment in Pakistan. Pakistan has a large English-speaking population. Nevertheless, a challenging security environment, electricity shortages, and a burdensome investment climate have deterred investors. Agriculture accounts for more than one-fourth of output and two-fifths of employment. Textiles and apparel account for most of Pakistan's export earnings, and Pakistan's failure to diversify its exports has left the country vulnerable to shifts in world demand. Pakistan's GDP growth has gradually increased since 2012. Official unemployment was 6.5% in 2015, but this fails to capture the true picture, because much of the economy is informal and underemployment remains high. Human development continues to lag behind most of the region.

In coordination with the International Monetary Fund (IMF), Pakistan embarked on an economic reform program in 2013. While the reform process has been mixed, and issues like privatization of state-owned enterprises remain unresolved, Pakistan has restored macroeconomic stability, improved its credit rating, and boosted growth. The Pakistani rupee, after heavy depreciation, remained relatively stable against the US dollar in 2014-15. Remittances from overseas workers, averaging more than $1.5 billion a month, are a key revenue source for Pakistan, partly compensating for a lack of foreign investment and a slowdown in portfolio investment. Falling global oil prices in 2015 contributed to a narrowing current account deficit and lower inflation, despite weak export performance. Pakistan's program with the IMF – a three-year, $6.7 billion Extended Fund Facility focusing on reducing energy shortages, stabilizing public finances, expanding revenue, and improving the external balance – is slated to conclude in September 2016. While passing most quantitative targets, Pakistan has missed targets on structural reforms and performance criteria throughout the program.

Pakistan remains stuck in a low-income, low-growth trap, with growth averaging about 3.5% per year from 2008 to 2013. Pakistan must address long-standing issues related to government revenues, with the tax base being narrow at 11% of GDP. Given demographic challenges, Pakistan's leadership will be pressed to implement economic reforms, promote further development of the energy sector, and attract foreign investment to support sufficient economic growth necessary to employ its growing and rapidly urbanizing population, much of which is under the age of 25. Other long-term challenges include expanding investment in education and healthcare, adapting to the effects of climate change and natural disasters, improving the country's business climate, and reducing dependence on foreign donors. Pakistan and China are implementing the "China-Pakistan Economic Corridor", a $46 billion investment program targeted towards the energy sector and other infrastructure project that Islamabad and Beijing had agreed on in early 2014.

Agriculture - products:

cotton, wheat, rice, sugarcane, fruits, vegetables; milk, beef, mutton, eggs

Industries:

textiles and apparel, food processing, pharmaceuticals, construction materials, paper products, fertilizer, shrimp

Exports - commodities:

textiles (garments, bed linen, cotton cloth, yarn), rice, leather goods, sporting goods, chemicals, manufactures, carpets and rugs

Exports - partners:

US 13.1%, UAE 9.1%, Afghanistan 9.1%, China 8.8%, UK 5.4%, Germany 4.9% (2015)

Imports - commodities:

petroleum, petroleum products, machinery, plastics, transportation equipment, edible oils, paper and paperboard, iron and steel, tea

Imports - partners:

China 28.1%, Saudi Arabia 10.9%, UAE 10.8%, Kuwait 5.6% (2015)

Banking

The financial sector in Pakistan is going through a major transition period. New groups are buying out Pakistan operations of foreign banks and the number of listed banks is also increasing. While the income from core banking activity is increasing due to higher business volume, earnings are also expected to further improve due to greater trends toward consumer finance, housing finance and enhanced lending to the agriculture sector.

Pakistan's banking sector consists of commercial banks, foreign banks, development finance institutions (DFI's), and micro-finance banks. Presently there are 40 commercial banks, seven DFI's, and six micro-finance banks operating in the country. The commercial banks comprise four nationalized banks, 23 local private banks, 9 foreign banks and four specialized banks. All these banks are supervised and regulated by the State Bank of Pakistan.

Stock Exchange

The capital market in Pakistan consists of three stock exchanges located in Karachi, Lahore and Islamabad. The principal securities traded on these exchanges are ordinary shares. However, other securities such as mutual fund certificates, modaraba certificates, government and corporate bonds and Term Finance Certificates are also being traded. The Karachi Stock Exchange (KSE) is the largest exchange in Pakistan and is a member of the Federation of Euro-Asian Stock Exchanges (FEAS) and the South Asian Federation of Exchanges (SAFE). It is also an affiliated member of the World Federation of Exchanges and the International Organization of Securities Commissions.

Section 4 - Investment Climate

Executive Summary

Despite a relatively open foreign investment regime, Pakistan remains a challenging environment for foreign investors. An unpredictable security situation, chronic energy shortages and a difficult business climate –including lengthy dispute resolution processes, poor intellectual property rights (IPR) enforcement and inconsistent taxation policies – have contributed to a significant drop in Foreign Direct Investment (FDI) in recent years. Pakistan ranked 138 out of 189 countries in the World Bank's Doing Business 2016 rankings, falling two places from the previous year.

The Pakistan Muslim League-Nawaz (PML-N) government was elected in May 2013 on pledges to turn around Pakistan's economy, enhance trade and investment, and bridge the energy shortage. In September 2013, the Government of Pakistan (GOP) and the International Monetary Fund (IMF) entered a three-year $6.8 billion Extended Fund Facility (EFF) arrangement which includes a series of reform benchmarks. The government has implemented some macroeconomic and energy reforms, such as a reduction in electricity subsidies, and attempted to privatize a number of state owned enterprises (SOEs). Progress toward privatization has been slow, however, impeded by strong domestic political pressures. The GOP, for example, has repeatedly postponed plans to privatize Pakistan International Airlines (PIA) and three state electricity distribution companies. The GOP's attempt to sell a 26 percent stake in PIA, along with management control, has been particularly fraught: in February, three people died amidst anti-privatization protests.

The United States has consistently been one of the largest sources of FDI in Pakistan and one of its most significant trading partners. Bilateral trade between the United States and Pakistan exceeded $5.5 billion in 2015. The Karachi-based American Business Council (ABC), an affiliate of the U.S. Chamber of Commerce, has a membership of 68 U.S. companies, most of which are Fortune 500 companies, operating in Pakistan across a range of industries. The Lahore-based American Business Forum (ABF) also provides assistance to U.S. investors. American companies have profitable investments across a range of sectors,, notably, but not limited to, fast-moving consumer goods and financial services. Other sectors attracting U.S. interest have been: franchising, ICT, thermal and renewable energy healthcare services, and tele-medicine. Used equipment from the United States is also in high demand.

In 2003, the United States and Pakistan signed a Trade and Investment Framework Agreement (TIFA), the purpose of which is to serve as a key forum for bilateral trade and investment discussion between the two countries. The TIFA seeks to address impediments to greater trade and investment flows and increase economic linkages between our respective business interests. TIFA meetings are held annually, with the most recent TIFA inter-sessional meeting occurring in March 2015.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perception Index	2015	117 of 168	http://www.transparency.org/cpi2015#results-table

World Bank's Doing Business Report "Ease of Doing Business"	2016	138 of 189	http://www.doingbusiness.org/rankings
Global Innovation Index	2015	131 of 141	https://www.globalinnovationindex.org/content/page/data-analysis
U.S. FDI in Pakistan ($M)	FY15	$208.9	http://www.sbp.org.pk/ecodata/nifp_arch/index.asp
World Bank GNI per capita	2015	$1,400	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a per capita gross national income (GNI) of $4,125 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: http://www.mcc.gov/pages/selection/scorecards. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: http://www.mcc.gov/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

The GOP welcomes foreign investment and offers incentives to attract new capital inflows. Incentives are largely industry-specific and include tax breaks, tariff reductions, dedicated infrastructure, and investor facilitation services. In addition, there are separate incentives for designated special economic zones (SEZs). In 2013, the PML-N government introduced the 2013 Investment Policy which further liberalized investment policies in most sectors.

Net inflows of FDI peaked at $5.4 billion in fiscal year 2008 (Note: Pakistan's fiscal year runs from July 1 to June 30). In FY 2015, net FDI was $850 million, roughly half of the prior year. The majority of FDI – $256 million – was in the financial sector, followed by $246 million in the upstream oil and gas sector and $201 million in the power sector. Analysts identified the security environment, a chronic energy crisis, and macro-economic instability as the biggest drivers for FDI's decline.

Pakistan remains a profitable market for the fast-moving consumer goods sector in which multinational corporations have a robust presence. In other sectors, such as pharmaceuticals, challenging pricing policies have hurt profit margins, causing some multinational providers to exit Pakistan. Power generation companies have experienced an uptick in business activity, although renewable energy providers have not found the same success, despite Pakistan's energy needs. Information and communications technology (ICT) is growing steadily, especially companies outsourcing services and software development. The franchising and healthcare sectors are also growing rapidly.

Foreign investors in Pakistan report that the wide array of federal and provincial taxes and tax regulations are difficult to navigate. For example, as detailed in World Bank's Doing

Business 2016 report, companies have to pay 47 different taxes in Karachi as compared to an average of 31.3 in other South Asian countries. These payments require an average of 594 hours per year to pay off. In addition, tax assessment procedures often lack transparency, something that has led to complaints of discrimination from foreign taxpayers. In some cases, multinationals have been asked make advanced tax payments against future earnings. Attempts to reform the tax system date back to the 1980s. Efforts, thus far have failed to deliver significant results, except for an increase in indirect (i.e. sales) taxes. Pakistan has one of the lowest tax-to-Gross Domestic Product (GDP) ratios in the world - approximately 11.0 percent in 2015 - and multinational corporations shoulder the largest portion of the tax burden.

Other Investment Policy Reviews

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

Laws/Regulations on Foreign Direct Investment

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

Business Registration

As defined by the Companies Ordinance of 1984, the registration of companies in Pakistan is government by the Securities and Exchange Commission of Pakistan (SECP). Both foreign and domestic countries begin the registration process by identifying an available name with the SECP. (A link to the SECP's Company Name Search tool can be found here). Once a name is chosen, and required fees are paid to begin the registration process, companies must supply requisite documentation regarding the proposed business. Typical documentation includes such items as: lists of corporate officers, location of company headquarters, and copy of company charter among other things. Every industry or a commercial establishment with five or more employees must be registered with Pakistan's

Federal Employees Old Age Benefits Institution (EOBI). In addition, companies need to apply for National Tax Numbers with the SECP, thus registering to pay income tax, and apply for a Sales Tax Number with Pakistan's Federal Bureau of Revenue (FBR. Depending on the location of the company, they will also need register with provincial social security institutions as well as with provincial or district labor departments.

The company registration process can be challenging. According to the World Bank's Doing Business 2016 rankings, Pakistan ranked 122 out of 189 countries in terms of the time it took to start a business. Starting a business in Karachi, for example, took 19 days on average as compared to 15.7 days on average in South Asia and 8.3 days in OECD high income countries.

Pakistan's federal Board of Investment (www.boi.gov.pk), as well as provincial board of investment, can provide potential investors with guidance on the registration process.

Industrial Strategy

In FY 2007, Pakistan eliminated tariff exemptions for certain manufacturing sub-sectors, specifically the value-added, priority, and high-tech industries. Currently, the manufacturing sector pays up to five percent customs duty on imported plants and machinery. Export-focused industries are entitled to duty-free import of raw materials. There is no minimum equity investment or national ownership requirement for investments in the manufacturing sector and the GOP allows 25 percent first-year depreciation for all fixed assets in this sector. The GOP also allows 25 percent of the cost of a plant and machinery to be counted as the first-year depreciation in infrastructure and social sectors.

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

Limits on Foreign Control and Right to Private Ownership and Establishment

In Pakistan's 2013 Investment Policy, the GOP eliminated the minimum initial capital investment requirements for all sectors. There is no minimum requirement for the amount of foreign equity investment or upper limit on the share of foreign equity allowed, except in the airline, banking, agriculture and media sectors. Foreign investors in the services sector may retain 100 percent equity "for the life of the investment." Pakistan allows foreign companies in the services sector to repatriate 100 percent of profits. To start a cellular network operation, investors need to obtain licenses from the Pakistan Telecommunication Authority. In the social and infrastructure sectors, 100 percent foreign ownership is allowed. In the agricultural sector, 60 percent foreign ownership is allowed. Corporate farming is permitted, though only companies incorporated in Pakistan can own farmland. There are no limits on the size of corporate farmland holdings, which foreign companies can lease for up to 50 years, with renewal options. The tourism, housing, construction, and information technology sectors have been granted "industry status," which makes them eligible for lower tax and utility rates than businesses categorized as "commercial sector" such as banks and insurance companies. Only Pakistanis can invest in small-scale mining valued at less than Rs. 300 million (about $3 million).

Privatization Program

From 2002-2007, Pakistan attracted significant foreign investment through the privatization of state-owned enterprises (SOEs) in the financial services and telecommunications sectors, though privatization stalled from 2008- 2013. Pakistan's EFF with the IMF identified 31 SOEs for either partial or total privatization. During FY 2015 the GOP successfully offloaded its stakes in several banks and publicly-traded firms. However, in early 2016 due to significant political resistance the GOP postponed plans to privatize PIA, Pakistan Steel Mills (PSM), and several power generation and distribution companies. Pakistan allows foreign and local investors to purchase public shares of SOEs and financial institutions on equal terms.

Screening of FDI

Since 1997, the GOP no longer screens industrial sector foreign investment unless investors apply for special incentive packages or government tariff protection and price guarantees. The same year, the GOP also eliminated requirements that foreign investors seek provincial government clearance for project location.

Competition Law

The Competition Commission of Pakistan (CCP) is responsible for regulating the anti-competitive and monopolistic practices of both private and public sector organizations. The 2010 Competition Commission Act codified the mandate of the CCP into law and revised the appeals process to include an appellate tribunal in Islamabad tasked with issuing decisions within six months. The law also reduced the fine for offenders from 15 percent to 10 percent of revenue-earned and authorized the CCP to collect three percent of the earnings of other major regulatory agencies to supplement their budget.

2. Conversion and Transfer Policies

Foreign Exchange

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

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

Exchange companies are permitted to buy and sell foreign currencies for individuals, banks, and other exchange companies. Additionally, they can sell foreign currencies to incorporated companies to facilitate the remittance of royalty, franchise, and technical fees.

In recent years, there has been an increase in overseas worker remittances sent through these companies.

Remittance Policies

The GOP allows the remittance of full capital, profits, and dividends over $5 million, Dividends are tax-exempt. There are no limits on dividends, remittance of profits, debt service, capital, capital gains, returns on intellectual property, or payment for imported equipment in Pakistani law, though for selected transactions that could impact Pakistan's foreign exchange reserves approval of the government's Economic Coordination Committee is often required. Banks are required to report and justify outflows of foreign currency and investor remittances can only be made against a valid contract or agreement registered with the SBP within 30 days of execution.

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

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

3. Expropriation and Compensation

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

4. Dispute Settlement

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

Pakistan's legal system is based on British common law and is strongly influenced by Islamic Sharia Law. The application of Islamic Sharia Law remains primarily confined to the areas of domestic or personal matters. There are two classes of courts: the superior or high courts and the lower or subordinate courts. The superior judiciary is composed of the Supreme Court, the Federal Sharia Court and five High Courts. The Supreme Court holds the country's highest jurisdiction. Neither the Supreme Court nor a High Court may exercise jurisdiction in relation to Pakistan's Tribal Areas, except in the cases where it is clearly stipulated. The lower courts are composed of civil and criminal district courts, and various specialized courts specifically covering areas such as: banking, intellectual property, customs & excise, smuggling, drug trafficking, terrorism, tax law, environmental law, consumer protection, insurance and corruption. The government also has the authority to set up administrative courts over which they exercise exclusive jurisdiction. Each province has a high court, which hears appeals from district courts in civil cases and session courts in criminal cases. It is common for one judge to preside over the district and session courts. The Supreme Court has jurisdiction over the provincial high courts, referrals from the federal government, and cases involving disputes among provinces or between a province and the federal government. Special courts and tribunals deal with taxation, banking, and labor.

Bankruptcy

Pakistan does not have a single, comprehensive bankruptcy law. Currently, foreclosures are governed under the Companies Ordinance of 1984 and administered by the SECP. The Banking Companies Ordinance of 1962 governs liquidations of banks and financial institutions. Court-appointed liquidators who auction the property of a bankrupt company organize the actual bankruptcy process, which can take years to complete.

Investment Disputes

Pakistan is a member of the International Center for the Settlement of Investment Disputes (ICSID). Foreign investors have noted, however, that the lack of clear, transparent, and timely investment dispute mechanisms has negatively impacted their investment decisions in Pakistan. In addition, they have expressed concerns over how arbitration cases are resolved. Enforcement of rulings is another major concern, as it can be inconsistent.

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

International Arbitration

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

ICSID Convention and New York Convention

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

Duration of Dispute Resolution – Local Courts

There is no specific duration for dispute resolutions and the process may take years to resolve.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Pakistan has been a World Trade Organization (WTO) member since January 1, 1995 and a General Agreement on Tariffs and Trade (GATT) member since 1948. Pakistan provides most favored nation (MFN) treatment to all member states with the exception of India and Israel. Since 2012, imports from India have been managed through use of a “negative list” of products that cannot be imported into Pakistan. There are about 1,200 products currently on Pakistan’s negative list. Pakistan does not conduct any trade with Israel.

During the period under review, Pakistan was a respondent in three WTO dispute settlement cases, including one involving the United States; over the same period, it was involved in five cases as a complainant

Pakistan is a signatory to the South Asia Free Trade Agreement. It also has bilateral free-trade agreements with China, Indonesia, Iran, Malaysia, Mauritius and Sri Lanka. At the time of this report, Pakistan was in the early stages of negotiating preferential trade agreements with Turkey, Thailand and South Korea.

In October 2015, Pakistan ratified the WTO's Trade Facilitation Agreement, making it, at the time, the 51st WTO member to do so and the only country in South Asia. The country is also one of 23 WTO countries, including the EU, that are negotiating the Trade in Services Agreement (TiSA).

Investment Incentives

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

In 2011, the GOP imposed sales taxes ranging from four to six percent on unregistered companies working in the supply chain of export oriented sectors, including textiles, surgical, sports, leather, and carpets. Registered companies remain exempted from sales tax. Retailers in the same export-oriented sectors are subject to a four percent sales tax. Separately, in 2014 Pakistan's Federal Bureau of Revenue (FBR) issued a new SRO imposing a 17 percent sales tax on imported finished textiles and leather goods while keeping the sales tax on similar locally produced products at five percent. The FBR has stated that they intend to equalize the tax rates over time but have not provided a timeline. The vast majority of import tariffs are under 30 percent of the value of the good.

Research and Development

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

Performance Requirements

Pakistan does not mandate specific performance requirements for foreign entities operating in the country. There is no requirement to hire domestic workers at any grade or have local representation on the company's board of directors. U.S. businesspeople are granted multiple entry visas valid for five years with a 90-day stay. Technical and managerial personnel working in sectors that are open to foreign investments are not required to obtain special work permits. Work visas for technical and managerial personnel are granted for one year and can be extended on a yearly basis.

Data Storage

Foreign investors are allowed to sign technical agreements with local investors without disclosing proprietary information. According to the country's 2013 Investment Policy, manufacturers that bring new technology to Pakistan receive the same incentives available to companies operating in Pakistan's Special Economic Zones (SEZs).

6. Protection of Property Rights

Real Property

Pakistan's legal system offers incomplete protection for the acquisition and disposition of property rights. The 1979 Industrial Property Order safeguards industrial property in Pakistan against government use of eminent domain without sufficient compensation, even in the public interest, in accordance with provisions of the law. The order protects both local and foreign investments. The 1976 Foreign Private Investment Promotion and Protection Act guarantees remittance of profits earned through the sale or appreciation in value of property.

Intellectual Property Rights

Pakistan remained on the U.S. Trade Representative's Priority Watch List in the 2015 Special 301 review. The report cites weak protection and enforcement of intellectual property rights (IPR), particularly with respect to copyrights, pharmaceutical data, and media piracy. Pakistan has made some progress in combating large-scale illegal optical disc production and retail sales of pirated and counterfeit products. Further action is required to combat book piracy, aggressively prosecute IPR crime, and ensure that courts issue deterrent-level sentences for IPR infringers. The GOP has identified intellectual property protection as a key area for its "second generation" economic reforms.

In 2005, Pakistan created the Intellectual Property Organization (IPO). The IPO, a semi-autonomous body under the administrative control of the Cabinet Division of Pakistan, consolidates into one government agency the authority over trademarks, patents, and copyrights – areas that were previously handled by offices in three separate ministries. IPO's mission is to initiate and monitor the enforcement and protection of intellectual property rights through law enforcement agencies, in addition to dealing with other IPR-related issues. The IPO's establishment, while important has not led to consistently measurable results in terms of increased public awareness of intellectual property rights, increased enforcement, or prompt action to address specific legislative and policy weaknesses. IPO has conducted training courses for IP professionals in accordance with WIPO standards.

Pakistan's 2012 Intellectual Property Organization law provides for specialized IPR tribunals to adjudicate cases and a policy board with private sector representation to assess policy decisions. However, the implementation of these laws is a slow and protracted process.

Although progress remains slow, the GOP achieved an important milestone when it set up three IP tribunals in 2015. One IP tribunal, in Lahore, is operational; meanwhile, judges have been appointed to tribunals in Islamabad and Karachi, but these courts are not yet hearing cases. The tribunal's effectiveness and the overall impact on Pakistan's IP regulatory environment is not yet clear.

Pakistan has enacted five major laws relating to patents, copyrights, trademarks, industrial designs, and layout designs for integrated circuits, but weak enforcement have limited the impact of these laws. GOP is working to update these laws with technical assistance from the U.S. Commercial Law Development Program (CLDP). However, the process is protracted and progress is slow.

In April 2005, in an effort to improve IPR protection, the GOP transferred inter-agency responsibility for the enforcement to the Federal Investigation Agency (FIA). Expanding manpower and training at the FIA remains a key challenge. The FBR, which manages customs authority in Pakistan, faces numerous challenges in properly identifying and interdicting counterfeit material at Pakistan's borders. However, in a promising sign, the FBR recently established an IPR Directorate to improve enforcement capacity. In May 2015, FBR launched an electronic recordation system and drafted Trade Related Intellectual Property Rights Enforcement Rules, although they have yet to be published. Additionally, the IPO signed an MOU with FBR in October 2015, agreeing to strengthen IPR enforcement at the border through data sharing and capacity building initiatives; however, this agreement is pending implementation.

Pakistan's existing regulatory structure provides virtually no IPR protection for seeds or plant biotechnology, but other elements of the regulatory system are beginning to function for the first time since devolution. Pakistani farmers rapidly adopted Bacillus Thuringiensis (Bt) cotton after it was first introduced informally during 2002 in the province of Sindh. Bt cotton now accounts for about 95 percent of cotton area in Pakistan. The technology first spread informally but the single Bt event was eventually approved by the government and both the private and public sectors are producing local varieties with the Bt event. After 2010, the GOP amended its constitution to devolve certain powers to the provinces, creating uncertainty between federal and provincial officials as to responsibility for regulatory approvals. The federal system functioned through 2012, but no new varieties were approved from 2012 until February 2016 when the federal government resumed approvals of new biotech seed varieties. Through early 2016, 34 varieties of commercial cotton and over 100 applications for crops that are undergoing research have been approved by the federal National Biosafety Committee, a major step forward after several years of inaction.

The GOP is currently debating the Plant Breeders' Rights Act, a law which if implemented, will provide a framework for patent protection. The Act has been the most forward looking in establishing potential IPR protection by enabling firms to register their varieties. If approved, it could open Pakistan's market to new biotechnology products, provided firms are confident that IP protection is adequate. One major U.S. seed firm is working with Pakistani partners to pursue a "fee-capture" system that would enable it to collect royalty payments from sales of new technology outside the regulatory bounds of the Plant Breeder's Rights Act.

Pakistan is a party to the Berne Convention for the Protection of Literary and Artistic Works, and is a member of the World Intellectual Property Organization (WIPO). On July 2004, Pakistan acceded to the Paris Convention for the Protection of Industrial Property. Pakistan has not yet ratified the WIPO Copyright Treaty or the WIPO Performance and Phonograms Treaty.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Resources for Rights Holders

Trade and Investment Officer
U.S. Embassy, Islamabad
(+92) 051-201-4000

Country/Economy resources:

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

7. Transparency of the Regulatory System

A number of government agencies, including the SECP, BOI, and SBP, oversee the commercial and financial regulatory system. Under the 1984 Companies Ordinance, all companies are required to register with the SECP. Additionally, the SECP regulates the securities market through its Securities Market Division. The SECP and the Pakistan Stock Exchange collaborate to streamline procedures to register and list securities. The 1971 Securities and Exchange Rules and the 1969 Securities and Exchange Ordinance govern Pakistan's equity markets. The Companies Ordinance provides a guideline for the closure of a company, while the Banking 1962 Companies Ordinance provides the procedure for closing of a bank.

The SBP, in its role as bank regulatory authority, has established a formal process of consultations with banks on draft regulations. Under Section 40 of the 1997 SECP Act, the SECP also publishes draft regulations to seek public comment prior to finalization.

Historically, Pakistan's Federal Board of Revenue (FBR) has had the power to issue statutory regulatory orders (SROs) and, through them, can issue new taxes and duties as well as grant exemptions and concessions. The FBR, through SROs, were able to issue and retract tax ordinances with relative autonomy as proposed taxes were not routed through through Pakistan's Parliament. Under this system, there was little transparency or oversight into the SRO decision-making process. In 2013, however, the GOP began the process of eliminating SROs, although the process has been slow. In 2015, the power to issue new SROs was withdrawn from the FBR. The authority to issue SROs currently resides with Economic Coordination Committee (ECC) of the Cabinet.

As mentioned earlier, the CCP is responsible for regulating the anti-competitive and monopolistic practices of both private and public sector organizations. The 2010 Competition Commission Act codified the mandate of the CCP into law and revised the appeals process to include an appellate tribunal in Islamabad tasked with issuing decisions within six months. The law also reduced the fine for offenders from 15 percent to 10 percent of turnover and authorized the CCP to collect three percent of the earnings of other major regulatory agencies to supplement their budget

8. Efficient Capital Markets and Portfolio Investment

Pakistan's financial sector policies support the free flow of resources for domestic and foreign investors. The SBP and SECP continue to expand their regulation and oversight of financial and capital markets. The top five banks (one of which is state owned) control 52.6 percent of all banking sector assets. In 2015, total assets of the banking industry were $14 billion. As of

December 2015, net non-performing bank loans (NPLs) totaled approximately $600 million, roughly two percent of net total loans.

Interest rates are dependent on the reverse repo rate (also called the policy rate). In the recent past, the SBP has steadily brought down the policy interest rate from a high of 10 percent at the fourth quarter 2014 to 6.5 percent in February 2016. Foreign entities are allowed to borrow from domestic banks without limits. Banks are required to ensure that total debt exposure to any domestic or foreign entity does not exceed 25 percent of the bank's equity. The private sector predominantly accesses credit from commercial banks. Credit however, can be difficult secure for all but the most credit-worthy companies as commercial banks frequently prefer to lend to the GOP than to the private sector. Pakistan's domestic corporate bonds, commercial papers, and derivative markets remain in the early stages of development. According to the 2013 Investment Policy, foreign investors in all sectors are allowed domestic credit lines subject to prevailing the rules and regulations of the SECP and SBP, and observance of the required debt-to-equity ratio. The policy extends the use of loans, previously limited to import of industrial plant machinery, to any purpose.

In January 2016, Pakistan's three stock exchanges (Lahore, Islamabad, and Karachi) merged to form the Pakistan Stock Exchange (PSE). The PSE is a member of the Federation of Euro-Asian Stock Exchanges (FEAS) and the South Asian Federation of Exchanges (SAFE). The PSE is also an affiliated member of the World Federation of Exchanges and the International Organization of Securities Commissions.

In 2010, the GOP implemented a capital gains tax of 10 percent on stocks held for less than six months and 8 percent on stocks held for more than six months but less than a year. No capital gains tax is applied on holdings that exceed 12 months. The 2012 Capital Gains Tax Ordinance appointed the National Clearing Company of Pakistan Limited to compute, determine, collect, and deposit the capital gains tax. Portfolio investments, capital gains, and dividends can be fully repatriated.

Recent capital market reforms include the introduction of minimum capital requirements for brokers, linking of exposure limits to net capital, strengthening of brokers' margin requirements, introduction of system audit regulations (mandating audit of 60 percent of brokers), introduction of over the-counter (OTC) markets to facilitate registration of new companies with less paid-up capital, and introduction of a National Clearing and Settlement system. The SECP implemented a number of other regulations, including on clearing houses, margin trading, proprietary trading, and abolition of the group account facility. Capital market legal, regulatory, and accounting systems are consistent with international norms.

Pakistan has adopted international accounting standards, with comprehensive disclosure requirements for companies and financial sector entities, and Pakistan adheres to the majority of international accounting and financial reporting standards.

Money and Banking System, Hostile Takeovers

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

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

The GOP enacted legislation providing a legal framework for friendly and hostile takeovers in 2002. The law provides that companies have to disclose any concentration of share ownership over 25 percent. There are no laws or regulations to authorize private firms to adopt articles of incorporation that discriminate against foreign investment. Per the Foreign Exchange Regulations, any foreign investor can invest in shares and securities listed on Stock Exchanges in Pakistan, and can repatriate profits, dividends, or disinvestment proceeds. The investor has to open a Special Convertible Rupee Account with any bank in Pakistan in order to make portfolio investments.

9. Competition from State-Owned Enterprises

Large and inefficient SOEs have retained a monopoly in a few key sectors, and the GOP provides annual subsidies to cover SOEs' losses. Three of the country's largest SOEs include: Pakistan Railways (PR), Pakistan International Airlines (PIA), and Pakistan Steel Mills (PSM). When the Sharif Administration took office in June 2013, it pledged to restart privatization efforts: the administration identified 31 state-owned companies slated for privatization, and hired transaction advisors for the first several transactions that were expected before the end of 2015. However, these efforts have been met with fierce controversy: a recent attempt to partially privatize PIA caused a serious backlash from labor union and opposition parties. Progress remains stalled despite repeated GOP assurances of its commitment to privatization.

Pakistan Railways (PR): PR is the only provider of rail services in Pakistan and the largest public sector employer with close to 90,000 employees. PR is no longer officially slated for privatization. PR's freight traffic has declined by over 76 percent since 1970. Of PR's 458 locomotives, on average, only 248 remained available for use. The company relies on government bailouts of $2.8 million a month to pay salaries and pensions. In the FY 2015 budget, total government grant payments to PR was budgeted at $410 million. In 2014, Pakistan initiated the public-private partnership policy (which was deferred since 2012), the private sector is being offered commercial management and passenger facilitation of 14 express, four passenger, one rail car each for mail, mixed, and shuttle trains. Nonetheless, there are indications that PR is improving its performance: it recently purchased 55 4,000-horsepower locomotives, which will be used for freight operations, and aims to recapture market share previously ceded to the trucking industry.

Pakistan International Airlines (PIA): continues to struggle and is criticized for poor management, excessive staffing, inefficient operations, and a non-competitive market strategy. In contrast to PR, PIA is technically not operating as a monopoly. It faces domestic private sector competition from Air Blue and Shaheen Air and also very strong competition from Gulf carriers and other regional airlines on international routes. In a December 2015 meeting, the Economic Coordination Committee (ECC) of the Federal Cabinet approved another bailout package of $90 million for PIA and also boosted sovereign guarantees from $1.3 billion to $1.4 billion. According to reports, the government intends to use the package to add premium services in long-haul routes and prepare the organization for privatization. In January, PIA announced after-tax losses of $194 million for the first nine months of calendar year 2015 (Jan-Sep), slightly lower than the $210 million loss incurred in same period of the previous year.

PIA's privatization is complicated by the PIA Act of 1956, which bars the transfer of shares to a non-governmental body. The GOP submitted a bill to parliament to address this issue by converting PIA in to a limited company thus pave the way for privatization. PIA's current debt is estimated at around $3 billion. Meanwhile, the GOP created a new company, "Pakistan Airways," as a subsidiary and may plan to shift the core business in this company. The GOP maintains that privatization will take place in six months and has already been given a green light by the Federal Cabinet and Prime Minister as per one of the conditions of the IMF EFF current arrangement.

Pakistan Steel Mills (PSM): Established by the GOP as a cheaper option than importing steel, PSM has deteriorated into a money-losing enterprise that relies on a ban on steel imports to remain afloat. In 2006, the Supreme Court halted the proposed $360 million sale of a 75 percent stake in PSM after facing opposition from a strong workers' union and the general public. There was also concern that the transaction undervalued PSM. As a result of a government-backed financial restructuring package worth $185 million in the first quarter of 2014, the mill was operating at 30 percent of its capacity as compared to three percent during the same period last year. However, this package did not last long and PSM and the entity stopped operating in June 2015. The company has $3.5 billion in debt and accumulated losses, loses $5 million a week and has not produced steel at its 19,000-acre facility since June last year. That was when the national gas company cut power supplies, demanding payment of bills of over $340 million.

References: http://www.resourcegovernance.org/rgi/countries: the underlying country fact sheets provide information on competition from state-owned enterprises in the oil, gas and mining sectors for over 50 countries.

Information on SOES in OECD and partner countries:

http://www.oecd.org/daf/ca/soemarket.htm

OECD Guidelines on Corporate Governance of SOEs

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

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

Sovereign Wealth Funds

Pakistan does not have its own sovereign wealth fund. Within the country, there are no specific exemptions for foreign sovereign wealth funds (SWFs) under domestic tax law. Foreign SWFs are taxed like any other non-resident person unless specific concessions have been granted under an applicable tax treaty to which Pakistan is a signatory.

10. Responsible Business Conduct

There are no unified set of standards defining responsible business conduct in Pakistan. For example, corporate social responsibility (CSR) is still in its infancy, although there is an increasing awareness of CSR among producers and consumers. Foreign and some local enterprises follow the accepted CSR principles and promote their messages through various media platforms. However, one major consequence is that CSR is sometimes equated with corporate philanthropy/charity, especially in the case of local corporations. Some indigenous companies have developed written CSR policies, but the majority, are either unaware of the benefits brought by CSR or they feel that even if they do not adopt CSR policies, they will not be penalized.

11. Political Violence

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

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

Reference: http://www.acleddata.com/ provides visuals showing trends in political violence in Asia and Africa.

12. Corruption

Since 2013, PML-N has made progress towards introducing anti-corruption policies and prosecuting high officials accused of being involved in corruption. Corruption nevertheless remains widespread in Pakistan at the federal level, especially in procurement, international contracts, and taxation. There are anecdotal reports that corruption has increased at the provincial level following the 2010 constitutional amendment that devolved responsibility for many service-delivery oriented issues, such as health, education, and environmental regulations, from the federal to the provincial governments. Offering and accepting bribes are criminal acts punishable by law and could result in confiscation of property, imprisonment, recovery of dishonest gains, and dismissal from government service or a penalization in governmental grade. In 2015, Pakistan ranked 117 out of 168 countries on the Transparency International Corruption Perceptions Index.

Constituted under the 1999 National Accountability Ordinance, the National Accountability Bureau (NAB) is the country's anti-corruption organization, with a mandate to expose and prevent corrupt activities, and to enforce anti-corruption laws. NAB struggles with insufficient funding and staffing.

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

The 2007 National Reconciliation Ordinance (NRO), promulgated under former President Pervez Musharraf, allowed the government to grant amnesty to public officials accused of corruption, embezzlement, money laundering, murder, and terrorism between January 1, 1986, and October 12, 1999. In December 2009, the Supreme Court declared the NRO null and void, and reopened all 8,000 cases against those who had received amnesty, including President Musharraf and sitting ministers and parliamentarians. Supreme Court decisions about the beneficiaries of NRO are still pending implementation.

Corruption within the lower levels of the police and customs officials is common, even considered normal by the general public. Transparency International notes that the major root cause of corruption is the lack of accountability and enforcement of penalties, followed by the lack of merit-based promotion and earnings, as well as overall low salaries.

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

UN Anticorruption Convention, OECD Convention on Combating Bribery

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

Resources to Report Corruption

Contact at government agency or agencies are responsible for combating corruption:

- Major Qamar Zaman Chaudhary
- Chairman
- National Accountability Bureau

- Ataturk Avenue, G-5/2, Islamabad
- +92-51-111-622-622
- chairman@nab.gov.pk

Contact at "watchdog" organization (international, regional, local or nongovernmental organization operating in the country/economy that monitors corruption, such as Transparency International):

- Sohail Muzaffar
- Chairman
- Transparency International
- 5-C, 2nd Floor,Khayaban-e-Ittehad, Phase VII, D.H.A., Karachi
- 0092-21-35390408-9
- ti.pakistan@gmail.com

13. Bilateral Investment Agreements

Bilateral Taxation Treaties

Pakistan and the United States began negotiating a Bilateral Investment Treaty (BIT) in 2004, but an agreement was never reached. Pakistan has signed BITs with 50 countries but has begun to implement the treaties with only 27 of those countries.

The United States and Pakistan have had a bilateral tax treaty in force since 1959. Pakistan also has double taxation agreements with 63 other countries. A multi-lateral treaty between the South Asian Association for Regional Cooperation countries of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka came into force with respect to Pakistan in 2011. The treaty provides additional provisions for the cooperation between the countries in the administration of taxes.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

The GOP established the first Export Processing Zone (EPZ) in Karachi in 1989, providing special fiscal and institutional incentives to export-oriented industries. Subsequent EPZ were subsequently established in seven other location: in Risalpur, Gujranwala, Sialkot, Saindak, Gwadar, Reko Dek and Duddar. Only the zones in Karachi, Risalpur, Sialkot, and Saindak are currently operational. The main incentives for EPZ investors are exemptions from taxes and duties on equipment, machinery, and materials (including components, spare parts, and packing material); indefinite loss carry-forward; and access to the EPZ Authority (EPZA) “Single Window” that facilitates the issuance of import permits and export authorizations. In 2012, Pakistan implemented the Special Economic Zones (SEZ) Act which established the regulatory framework with which SEZs operate within Pakistan today. The SEZ act allows private parties to establish companies as well as public-private partnerships within SEZs.

Despite offering substantial financial, investor service, and infrastructural incentives to reduce the cost of doing business some of Pakistan's SEZs have struggled to attract investment due to the challenges they have had providing reliable gas, electricity, and water supplies.

Apart from SEZ-related incentives, the GOP offers incentives for other categories of export manufacturing. An Export-Oriented Unit (EOU) is a stand-alone industrial entity that exports 100 percent of its production. EOUs are allowed to operate anywhere in the country. EOU incentives include duty and tax exemptions for imported machinery and raw materials in addition to duty-free import of two vehicles per project.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical Score*		USG or international Statistical Score		USG or International Source of Date: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) ($M USD)	2015	272,865	2015	270,961	https://www.imf.org/external/pubs/ft/weo/2015/02/weodata/index.aspx
Foreign Direct Investment	Host Country Statistical Source*		USG or international statistical source		USG or International Source of Date: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country ($M USD, stock positions)	2015	225.5	2014	272	http://bea.gov/international/factsheet/factsheet.cfm?Area=622
Host country's FDI in the United States ($M USD, stock positions)	2015	16.6	2014	(224)	http://bea.gov/international/factsheet/factsheet.cfm?Area=622
Total inbound stock of FDI as % host GDP	2015	0.08%	2014	N/A	N/A

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

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data 2015

From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			Outward Direct Investment		
Total Inward	2,678	100%	Total Outward	1,827	100%
China	1,058	39.5%	China	803	43.95%
United Kingdom	264	9.86%	France	233	12.75%
United Arab Emirates	254	9.48%	Switzerland	151	8.26%
United States	226	8.44%	Saudi Arabia	133	7.28%
Italy	116	4.33%	United Kingdom	90	4.92%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: State Bank of Pakistan

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets 2014								
Top Five Partners *(US Dollars, Millions)*								
Total			Equity Securities			Total Debt Securities		
All Countries	381	100%	All Countries	206	100%	All Countries	175	100%
Saudi Arabia	190	50	Saudi Arabia	178	86	United Arab Emirates	25	14
United Arab Emirates	29	7	Virgin Islands, British	12	6	Cayman Islands	22	12
Cayman Islands	25	6	United Kingdom	8	4	Qatar	20	12
Qatar	20	5	United Arab Emirates	3	2	Japan	19	11
Japan	19	5	Cayman Islands	3	1	Turkey	13	7

Source: IMF Coordinated Portfolio Statement

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments

Legal system:

Common law system with Islamic law influence

International organization participation:

ADB, ARF, ASEAN (dialogue partner), C, CICA, CP, D-8, ECO, FAO, G-11, G-24, G-77, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IDB, IFAD, IFC, IFRCS, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), LAIA (observer), MIGA, MINURSO, MONUSCO, NAM, OAS (observer), OIC, OPCW, PCA, SAARC, SACEP, SCO (observer), UN, UNAMID, UNCTAD, UNESCO, UNHCR, UNIDO, UNISFA, UNMIL, UNMIT, UNOCI, UNSC (temporary), UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Section 6 - Tax

Exchange control

For further information:

http://www.sbp.org.pk/Updated%20FE%20Manual/chapters/chapter1.htm

Double Taxation Treaties in force

Austria
Azerbaijan
Bahrain
Bangladesh
Belarus
Belgium
Bosnia and Herzegovina
Brunei
Canada
China
Denmark
Egypt
Emirates
Finland
France
Germany
Hungary
Indonesia
Iran
Ireland
Italy
Japan
Jordan
Kazakhstan
Kenya
Korea (Republic of)
Kuwait
Kyrgystan
Lebanon
Libya
Malaysia
Malta
Mauritius
Morocco
Nepal
Netherlands
Nigeria
Norway
Oman
Philippines
Poland
Portugal
Qatar
Romania
Saudi Arabia
Serbia
Singapore
South Africa
Spain
Sri Lanka
Sweden
Switzerland
Syria
Tajikistan
Thailand
Tunisia
Turkey
Turkmenistan
Ukraine
United Arab
United Kingdom
United States
Uzbekistan
Vietnam
Yemen

Methodology and Sources

Section 1 - General Background Report and Map

(Source: CIA World Factbook)

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	**Medium Risk**	**Higher Risk**
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes PKF International)

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Any questions or queries should be addressed to: -

Gary Youinou

Via our Contact Page at KnowYourCountry.com