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Pakistan and Central Asian Republics: Investment Climate and Policy Regime

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Abbreviations

ADB	Asian Development Bank
BIT	Bilateral Investment Treaty
CAR	Central Asian Republic
CASA	Central Asia South Asia Electricity Transmission and Trade Project
CIS	Commonwealth of Independent States
CPI	Corruption Perception Index
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FEZ	Free Economic Zone
GDP	Gross Domestic Product
GoP	Government of Pakistan
KZT	Kazakhstan Tenge (currency)
NBP	National bank of Pakistan
OECD	Organization for Economic Co-operation and Development
RO	Representative Office
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission
SEZ	Special Economic Zone
SIZ	Special Industrial Zone
TAPI	Turkmenistan, Afghanistan, Pakistan, India Gas Pipeline
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency of International Development
VAT	Value Added Tax
WTO	World Trade Organization

Executive Summary

Foreign investment is an important determinant of economic growth, leading to global integration and accelerated development for all countries. Since the dissolution of the Soviet Union, the Central Asian Republics (CARs), specifically Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, have opened their economies and have become an attractive destination for foreign investments due to their strategic geographic position and rich endowments, both in natural and human resources. Pakistan, with its abundant land and natural resources, and a growing domestic market also possesses vast potential for foreign investments. Additionally, Pakistan offers a liberal investment policy regime with a focus on marketing the potential for direct investments. Pakistan has established bilateral investment treaties with all CARs, with Kazakhstan in 2003, Kyrgyz Republic in August 1995, Tajikistan in May 2004, Turkmenistan in October 1994, and Uzbekistan in August 1992. Despite the established institutional framework under the bilateral investment treaties, there have been no significant investments made by CARs in Pakistan; similarly Pakistan's investments to CARs have also been minimal.

While factors deterring the growth of investments from Pakistan to CARs vary from country to country, some common barriers across CARs include government interference, arbitrary regulatory measures, and lack of awareness of existing opportunities for Pakistani investors. On the other hand, poor infrastructure coupled with an ongoing energy crisis and prevalent security concerns act as major deterrents for foreign investors willing to invest in Pakistan.

Overview of Key Findings

1. Kazakhstan, Kyrgyzstan and Tajikistan, compared to Turkmenistan and Uzbekistan, reflect a more liberal investment climate; whereas, the implementing tools and facilitating services associated with enforcing investment laws in all CARs are less advanced.

2. Among the CARs, Kazakhstan has been the most successful in attracting Foreign Direct Investment (FDI) followed by a distant second - Turkmenistan. Both these countries are oil rich, upper middle-income countries. The remaining three countries, Kyrgyzstan, Tajikistan, and Uzbekistan have received less FDI inflow in recent years.

3. All CARs face the challenge of over-dependency on their extractive industries. Governments of individual CARs are therefore, focusing on encouraging FDI in the non-extractive sectors. The tourism sector in all five CARs offer a variety of unexploited opportunities for foreign investors through capacity building of tourism associations and technical know-how for promoting and marketing the industry. Other sectors with investment potential include the textile & clothing sector, especially in Kazakhstan, Kyrgyzstan and Uzbekistan, the agribusiness & food-processing industry, especially in Kazakhstan and Kyrgyzstan, and the construction, transport and logistics sectors, especially in Tajikistan, Turkmenistan and Uzbekistan. At the same time, barriers such as arbitrary regulatory standards, government interference and maladministration must be addressed for these sectors to thrive.

4. Pakistan and CARs realize the importance of regional integration in promoting efficient production, and allowing greater market access. Especially countries with a small market like Kyrgyzstan, and countries with inadequate infrastructure and institutions like Tajikistan have much to gain by improving regional market linkages.

5. Kazakhstan became a member of the Eurasian Economic Community Customs Union in January 2010, alongside Russia and Belarus. Under the agreement, member states removed all borders and customs controls within the Union and allow free movement of goods, capital and workers. As a result, investing in Kazakhstan opens up the potential market of an additional 150 million Russian and Belarus citizens. Kyrgyzstan is also in the negotiating stages of acceding to the

Customs Union. If Kyrgyzstan is successful in gaining approval from other World Trade Organization (WTO) members to raise tariffs, it will become even more important for the country to attract FDI since custom duties on imported goods will increase to the Customs Union levels. For example, for sectors in Kyrgyzstan that are currently dependent on less costly Chinese inputs with close to zero percent custom duties, changes will be substantial as goods and food prices will likely increase. In light of this, Kyrgyzstan is actively seeking increased investments in the non-extractive sectors, prior to joining the Customs Union.

6. Established Special Economic Zones (SEZs) and Free Economic Zones (FEZs) in all CARs can serve as an important platform for current and future investors. Kazakhstan has nine SEZs set up across the country for tourism, Information Technology (IT), petrochemicals, and metallurgy among others. Kyrgyzstan has established five FEZs situated along the borders to make use of transport corridors and custom posts. Tajikistan has one operational FEZ and three zones in the development stages. Turkmenistan has 10 established FEZs, and Uzbekistan has three established Special Industrial Zones (SIZs) strategically situated across the country. While the incentives in these zones vary, all provide substantial benefits for investors including simplified procedure and fiscal and non-fiscal incentives, highlighted in the regulatory framework section of this report.

7. The reasons for low FDI inflows in Tajikistan and Uzbekistan vary significantly. Tajikistan suffers from an underdeveloped road infrastructure (93 percent of the surface area is covered by mountains[1]) and weak institutions, inhibiting the development of a favorable investment environment in the country. Political tensions with Uzbekistan also disrupt major road and rail transportation entering the country from the shared border with Uzbekistan. Combined, these impediments have resulted in the lowest FDI inflows to Tajikistan in recent years. On the other hand Uzbekistan, the most populous of the CARs, practices restrictive and excessive government control over almost all investment sectors thereby dampening foreign interests.

8. Little or no recorded data is available for FDI outflows from CARs with the exception of Kazakhstan. According to the 2013 World Investment Report, FDI outflows of USD 1,582 million were recorded in Kazakhstan. Most of the CARs' FDI outflows are concentrated within the former Soviet Union - primarily Central Asia, the South Caucasus and Russia. Outward FDI (OFDI) to some European countries has also expanded recently, but the CARs are mostly investing in the neighboring countries. For example, Kazakhstan's OFDI in the gold mining, sugar processing, cement, and tourism industries is concentrated in Kyrgyzstan.[2] After the collapse of the Soviet Union, shared historical background, familiar culture, and common language made it convenient for businesses to establish across CARs.

9. Pakistani investors face a large "information gap" in realizing the existing opportunities for investments in CARs. Due to more predictable returns on investments most investors from Pakistan are inclined to invest in European countries, the Middle East, and the North American region. According to the State Bank of Pakistan (SBP), top recipients of FDI from Pakistan in recent years included Norway, Netherlands, United Arab Emirates (UAE), United States of American (USA), and the United Kingdom (UK). Accounting for Kazakhstan's potential to become a regional export hub, benefits from investing in Kazakhstan extend way beyond the CARs. Stakeholders' reviews confirm a growing presence of Pakistani investments in Kazakhstan's pharmaceutical sector, and limited investment in its banking and hospitality sector. Pakistan also has the investment potential for growth in CARs in some of its stronger sectors, namely textiles and IT.

[1] FAO, "Participatory Integrated Watershed Management in Upland Areas of Tajikistan," http://www.fao.org/forestry/watershedmanagementandmountains/74914/en/ (accessed May 11, 2014)
[2] Nicklas Norling, "Kazakhstan's Investments Abroad," *Central Asia-Caucasus Institute Analyst*, (2012), http://old.cacianalyst.org/?q=node/5748/print (accessed May 12, 2014)

10. Pakistan offers an attractive investment environment and a strong industrial base for potential investors from CARs. Pakistan's ability to cater to short order supplies coupled with the presence of several SEZs established across the country, abundant cheap labor, and competitive cost of production add to the attraction for foreign investments in Pakistan.

The overall assessment concludes that the CARs and Pakistan, through the liberalization of the FDI regulatory framework have improved the business environment to enhance regional and bilateral investment flows. There is however, a need for these countries to further improve their investment policy framework by reducing state control over foreign capital flows, removing slow and burdensome regulatory procedures, and enforcing non-discriminatory and transparent policies and regulations to increase bilateral investments.

Introduction

Purpose of the Report

This report presents an overview and assessment of the investment opportunities, barriers and other impediments that affect investments between Pakistan and CARs as well as recommendations for improving the investment climate to encourage foreign investments. The report draws its conclusions primarily from data and information collected through interviews with relevant stakeholders, and presents success stories to serve as a basis of encouragement for potential investors. The annexure to this report highlights the regulatory policy regime of Pakistan and CARs.

Global FDI trends and importance for developing countries

FDI refers to an investment by a foreign person, company or group of entities "made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor" with significant influence over the operations of the foreign company.[3] This is distinguished from a foreign portfolio investment which involves passive holdings on securities such as foreign stocks and bonds, and does not involve the construction or purchase of immovable assets for production capacity or control over the management or operations of a foreign firm.

United Nations Conference on Trade and Development (UNCTAD) reports that global FDI inflows in all major developed, developing and transition economies rose by 11% in 2013, from an estimated USD 1.32 trillion in 2012 to USD 1.46 trillion in 2013, comparable to the pre-recession average of USD 1.49 trillion for the years 2005-07. Developing economies alone accounted for a record 52 percent of global FDI inflows in 2013.[4] As global economic growth gains momentum, growth in FDI is expected to continue to increase during the years ahead.

Foreign investments are important to most economies, particularly to developing countries. FDI contributes to the transfer of technology, skills, and access to domestic and export markets, and therefore play a vital role in the economic development of host countries. In addition to providing direct capital, FDI creates positive externalities through technical know-how, job creation and competition. At the same time, investors can benefit from higher returns, a cheaper labor market, diverse natural resources, and expanded market access to foreign countries.

Methodology

Data on FDI inflows and outflows between CARs and Pakistan is largely unavailable in the public domain, limiting the ability of this report to accurately determine the current level of investment flows.

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[3] IMF, "Foreign Direct Investment Trends and Statistics" (October 28, 2003), 6, https://www.imf.org/external/np/sta/fdi/eng/2003/102803.pdf (accessed May 14, 2014)
[4] UNCTAD, "World Investments Report 2013: Global Value Chains: Investment and Trade for Development," (United Nations, 2013)

Sector specific information and associated barriers to investments in CARs were also not easily accessible.

Primary data was collected through interviews and discussions with relevant stakeholders that included current and potential investors from Pakistan to CARs. Interviews were conducted with individuals, local businesses, and multinational entities in Pakistan and CARs operating in a variety of sectors including pharmaceuticals, banking, fruits and vegetables, hospitality, and poultry among others. Logistics, financial mechanisms, investment barriers, and existing regulatory environment in Pakistan and CARs were some of the subject areas discussed in these meetings. In addition, academics and other experts in Central Asian matters were also consulted to gather information on the investment potential and barriers in Pakistan and CARs. These experts include representatives from CARs who attended the Central Asian Business Opportunities Conference (April, 14-16 2014) in Islamabad, Pakistan.

Findings from these interviews have been applied to formulate an assessment in the body of the report. Sections on investment barriers and recommendations to encourage investments between Pakistan and CARs also draw largely from these discussions. Interviews with National Bank of Pakistan (NBP) officials and Getz Pharmaceutical (Pvt. Ltd.) representatives, both investing in the CARs, have also been presented as case studies at the end of this report.

Secondary research was conducted via literature review of existing research material on the investment climate, potential, opportunities, and barriers to investing in Pakistan and CARs. Information from these studies is cited wherever applicable in this report.

Geographical and economic information has been sourced from the World Factbook. This information includes country profiles and key economic indicators such as GDP, population, total exports and imports, unemployment, and GDP growth rates.

Statistical information including yearly FDI inflow and outflows, as well as other UNCTAD statistics, was sourced from the World Investment Report 2013 published by UNCTAD.

Other major sources include:

- Board of Investment (BOI) Pakistan
- State Bank of Pakistan
- Securities and Exchange Commission of Pakistan
- United Nations Statistics Division of the Department of Economic and Social Affairs

FDI Trend in the Economies of Pakistan and CARs

FDI inflows to CARs have been increasing with the exception of Kyrgyzstan and Uzbekistan. Fast growing consumer markets and abundant natural resources continue to be the main attractions for investors in these countries. According to the 2013 World Investment Report, FDI inflow to CARs in 2012 totaled USD 18.807 billion. Kazakhstan received the largest inflow with USD 14.022 billion, second only to Russia in the Commonwealth of Independent States (CIS) region.[5] Turkmenistan received FDI inflows of USD 3.159 billion despite a restrictive investment climate. Pakistan, on the other hand, reported a decline in FDI inflow, from USD 1.33 billion in 2011 to 847 million in 2012.[6] Energy crises coupled with volatile security situation contributed to the decline in FDI inflows to Pakistan. In 2012, the largest sources of FDI to the CARs included the United States (US), the

[5]CIS member countries include; Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Uzbekistan. Turkmenistan is an unofficial associate member.
[6] UNCTAD, "World Investments Report 2013: Global Value Chains: Investment and Trade for Development," (United Nations, 2013)

European Union (EU), Russia, China, and Turkey. In Pakistan, investment flowed mainly from the US, the United Kingdom (UK), the United Arab Emirates (UAE), and Japan.

Table 1: Pakistan and CARS FDI inflows

FDI inflows (USD million)[7]		
Country	**2011**	**2012**
Kazakhstan	13,903	14,022
Kyrgyzstan	694	372
Tajikistan	11	290
Turkmenistan	3,399	3,159
Uzbekistan	1,467	1,094
Pakistan	1,327	847
Source: *World Investment Report (UNCTAD)*		

At a more disaggregated level the largest reported FDI contributors by country and sector in CARs and Pakistan include the following:

Table 2: Pakistan and CARs largest FDI inflows by country and sector

Largest inflow of FDI to CARs and Pakistan		
Country	**Largest Investors by country**	**Sectors attracting most FDI**
Kazakhstan	○ Netherlands ○ USA ○ France ○ China ○ Russia ○ Turkey	○ Energy ○ Mining ○ Information and communication ○ Banking ○ Wholesale and retail trade
Kyrgyzstan	○ Canada ○ China ○ UK ○ Germany ○ Russia	○ Mining ○ Manufacturing ○ Food processing ○ Banking ○ Hotel ○ Telecommunication
Tajikistan	○ Russia ○ Iran ○ Great Britain ○ Pakistan ○ Switzerland ○ Kazakhstan ○ China ○ UAE ○ India	○ Energy ○ Communications ○ Geological Research in Mining ○ Precious metals
Turkmenistan	○ UAE ○ Germany ○ Russia	○ Oil and Gas ○ Chemical ○ Transportation
Uzbekistan	○ USA ○ China ○ Russia	○ Oil and Gas ○ Telecommunications
Pakistan	○ UK ○ Hong Kong ○ USA ○ Switzerland ○ China ○ Japan ○ UAE	○ Chemical ○ Construction ○ Transport ○ Power ○ Textile ○ Communication ○ Food and beverages
Source: Information compiled using the Investment Climate Statement 2013 report, for individual countries. (http://www.state.gov/e/eb/rls/othr/ics/2013/index.htm)		

[7] Ibid

Measuring the Investment Climate

Indicators such as the "Ease of Doing Business Index" and the "Corruption Perceptions Index," facilitate in gauging a country's investment climate. By gathering quantitative data to analyze and compare business regulation environments over time, it encourages economies to compete towards more efficient and transparent regulations, and serves as a resource for foreign investors interested in doing business in a country.

Ranking of CARs (for available countries) and Pakistan for these two indicators is provided in Table 3, below:

Table 3: Measuring the Investment Climate

Country	Indicators			
	Ease of Doing Business Ranking (out of 189 economies)		Transparency International Corruption Perceptions Index	
	2012	2013	2012 Ranking out of 176 countries (Score)	2013 Ranking out of 177 countries (Score)
Kazakhstan	53	50	133 (28)	140 (26)
Kyrgyzstan	70	68	154 (24)	150 (24)
Tajikistan	141	143	157 (22)	154 (22)
Turkmenistan	-	-	170 (17)	168 (17)
Uzbekistan	156	146	170 (17)	168 (17)
Pakistan	106	110	139 (27)	127 (28)
Source: *Ease of Doing Business*, World Bank and *Corruption Perceptions*, Transparency International				

Transparency International's Corruption Perceptions Index (CPI) scores and ranks each country's perceived levels of corruption.[8] The Corruption Perceptions Index 2013 scored 177 countries on a scale of 0 (highly corrupt) to 100 (no corruption) out of which two-thirds of the countries scored under 50. Pakistan and CARs also scored below 50 and showed little or no improvement in rankings from previous years. These numbers indicate a perceived level of high corruption in the respective economies, adding to investor mistrust.

The World Bank's Ease of Doing Business ranks 189 economies, including Pakistan and CARs (except Turkmenistan), taking into account processes for starting a business, construction permits, registering property, access to electricity and credit, investor protections, paying taxes, cross-border trade, contract enforcement, and resolving insolvency.[9] A high ranking (lower numerical number) means the regulatory climate is more conducive to starting and conducting a business. A breakdown of the indicators and ranks used to calculate the Ease of Doing Business ranking in Pakistan and CARs are discussed below.

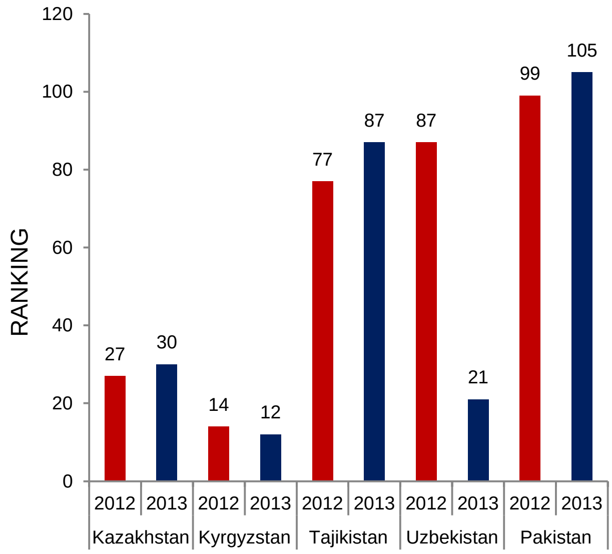
The **Starting a Business** indicator measures the time and cost for all procedures required to start up a business in the country's largest city. Figure 1 demonstrates that Kazakhstan and Kyrgyzstan perform well for this indicator. Uzbekistan has made significant progress and has improved its ranking from 87 in 2012, to 21 in 2013. Pakistan and Tajikistan's rankings reflect that it is comparatively difficult to start a business in these two countries.

Dealing with Construction Permits measures the time and cost for all procedures involved in building a warehouse. These procedures range from obtaining and submitting building plans and hiring contractors, to obtaining licenses and utilities for telephone and water connections. The

[8] Transparency International, "Corruption Perceptions Index 2013," http://cpi.transparency.org/cpi2013/results/ (accessed May 6, 2014)
[9] Doing Business, "Methodology," http://www.doingbusiness.org/methodology (accessed May 5, 2014)

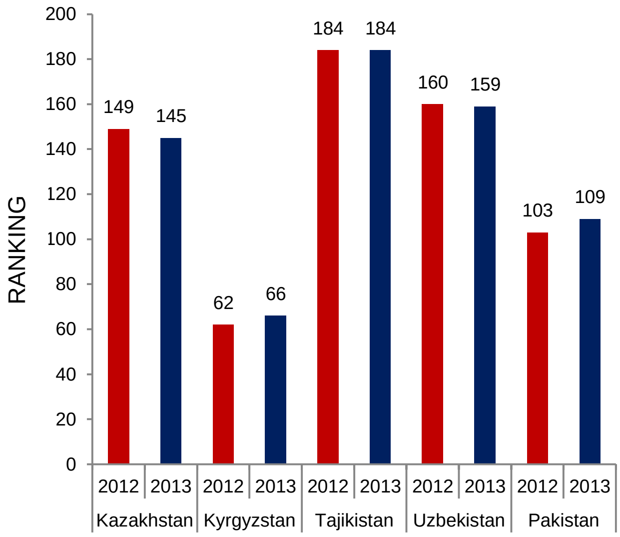
procedure is fairly difficult in Kazakhstan, Tajikistan and Uzbekistan, and relatively easier in Kyrgyzstan and Pakistan as evidenced in Figure 2.

Figure 1: Starting a Business Rank



Source: *Ease of Doing Business,* World Bank

Figure 2: Dealing with Construction Permits

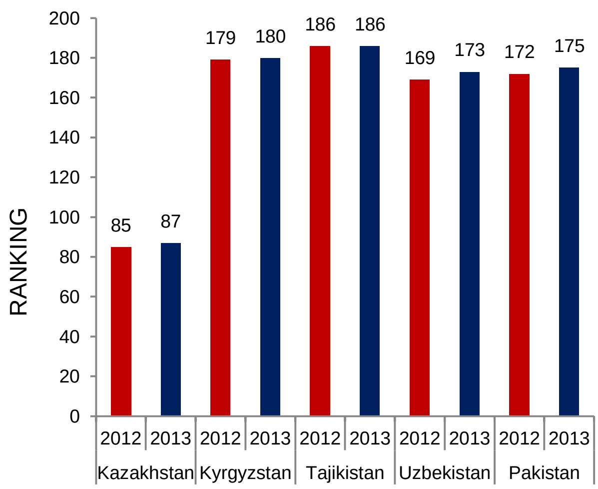


Source: *Ease of Doing Business,* World Bank

The **Getting Electricity** indicator ranks countries according to the ease of obtaining a permanent electricity connection. All countries rank unfavorably for this indicator except Kazakhstan, as shown in Figure 3.

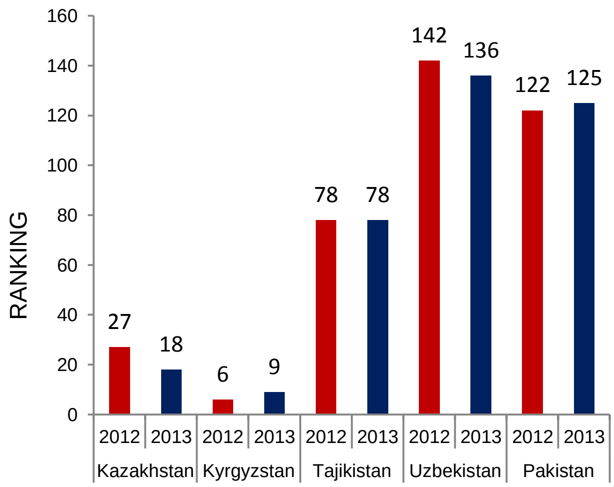
The **Registering Property** indicator measures the ease of buying property and the cost and time involved in registration. Kazakhstan and Kyrgyzstan perform very well for this indicator, ranking 18 and 9 in 2013, respectively. Uzbekistan and Pakistan do not perform well for this indicator, ranking 136 and 125 in 2013, respectively.

Figure 3: Getting Electricity Rank



Source: *Ease of Doing Business,* World Bank

Figure 4: Registering Property Rank

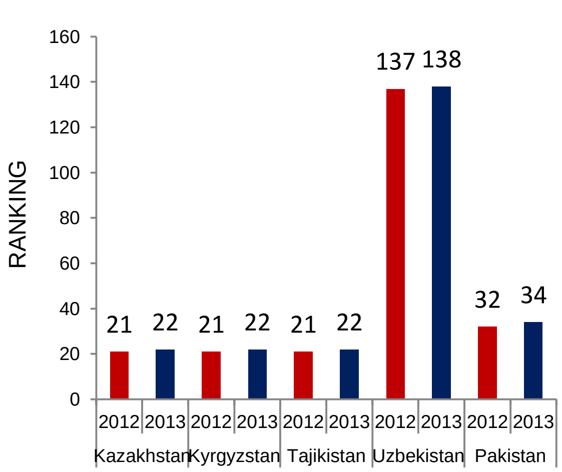


Source: *Ease of Doing Business,* World Bank

The **Protecting Investors** indicator ranks investor protection for minority shareholders by considering the extent of disclosure index, extent of director liability index, and the ease of shareholders' suit index. Figure 5 demonstrates that all countries except Uzbekistan show favorable ratings.

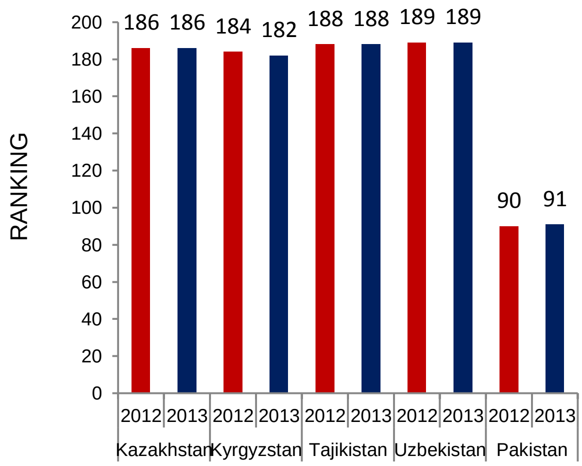
The **Trading across Borders** indicator measures the time and cost including documents needed by traders, for exporting and importing goods through sea cargo. For landlocked economies, these include procedures at the inland border posts. Figure 6 shows that all CARs do not perform well for this indicator.

Figure 5: Protecting Investors Rank



Source: *Ease of Doing Business,* World Bank

Figure 6: Trading Across Borders Rank

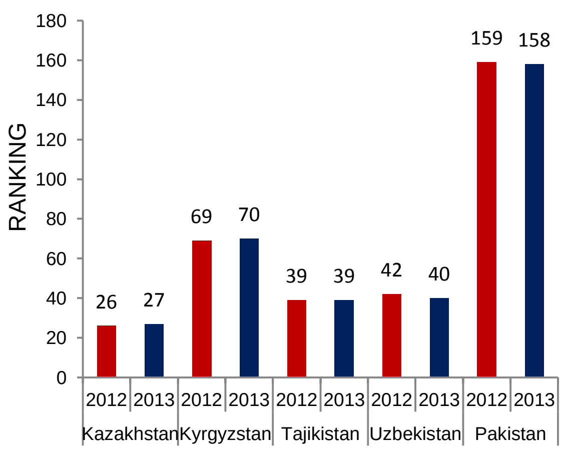


Source: *Ease of Doing Business,* World Bank

The **Enforcing Contracts** indicator ranks countries according to the efficiency of the judicial system in resolving disputes through the courts. Figure 7 demonstrates that Pakistan does not perform well for this indicator, ranking 158 in 2013. CARs' performance is relatively more satisfactory, with Kyrgyzstan ranking the lowest among the CARs, at 70 in 2013.

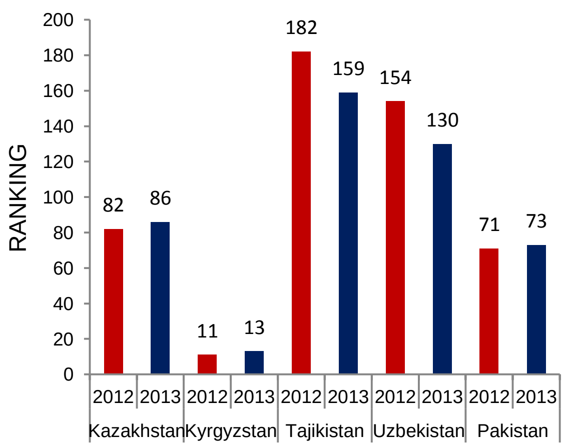
The **Getting Credit** indicator measures the rights of borrowers and lenders by considering the security of transactions, sharing of credit information, and the degree to which laws protect the rights of borrowers and lenders. Figure 8 shows that Kyrgyzstan performs very well for this indicator, ranking 13 in 2013. Pakistan and Kazakhstan rank in the intermediate range, ranking 73 and 86 in 2013, respectively. Tajikistan and Uzbekistan are most difficult to gain credit, ranking 159 and 130, respectively, in 2013.

Figure 7: Enforcing Contracts Rank



Source: *Ease of Doing Business,* World Bank

Figure 8: Getting Credit Rank

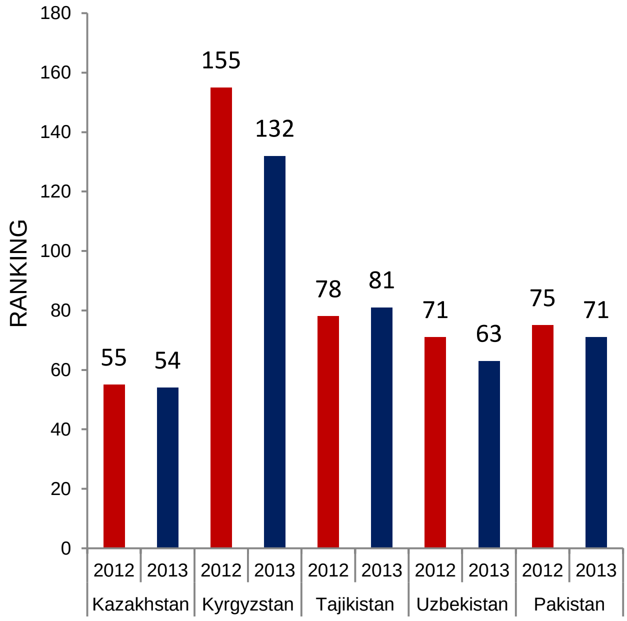


Source: *Ease of Doing Business,* World Bank

The **Resolving Insolvency** indicator measures the time and cost of insolvency proceedings for a domestic business. Figure 9 demonstrates that Kyrgyzstan does not perform well for this indicator compared to other CARs and Pakistan.

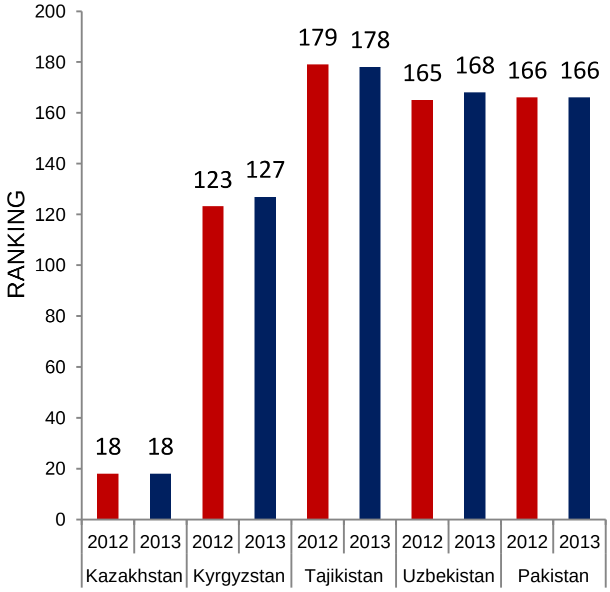
The **Paying Taxes** indicator ranks countries according to the size of the tax burden along with the administrative resources required to prepare and file taxes. Figure 10 demonstrates that apart from Kazakhstan, the tax systems in CARs and Pakistan are among the least business-friendly.

Figure 9: Resolving Insolvency Rank



Source: *Ease of Doing Business,* World Bank

Figure 10: Paying Taxes Rank



Source: *Ease of Doing Business,* World Bank

Investing Across Borders

FDI Regulation Database, 2012

The FDI regulation database is a joint initiative by the World Bank (WB) and International Finance Corporation (IFC) that compares the regulations impacting FDI in 105 economies including Kazakhstan, Kyrgyzstan, and Pakistan. It calculates indicators representing countries' laws, regulations, and practices that affect how companies:

- Invest across sectors – measures legal restrictions on foreign ownership of equity across 32 sectors including telecommunication, electricity, media and oil and gas, among others.
- Start foreign investments – measures the procedural time required and regulatory regime for establishing business including access to industrial land and SEZs.
- Arbitrate commercial disputes – measures aspects of existing domestic and international arbitration regimes, legal framework for alternative dispute resolutions and extent of judiciary support on arbitration.
- Employ skilled expatriates – measures regulations and practices relevant to obtaining temporary work permits for skilled expatriates.
- Convert and repatriate currency – measures regulations associated with converting local currency and foreign exchange, repatriation of funds and transfer of foreign exchange for investment or trade related transactions.

Indicators such as security, macroeconomic stability, market size and corruption are not measured in these calculations.

Main findings

- In almost all economies, FDI ownership in the manufacturing and tourism sectors is the least restrictive in contrast to high restrictions in the media, electricity, and telecommunications sectors.
- Arbitration as a tool to resolve disputes is recognized in 103 economies including Kazakhstan, Kyrgyzstan and Pakistan; however, up till 2012, Pakistan was reported as not having a functional arbitration institution.[10]
- In Kazakhstan, foreign ownership in the media (newspapers, television broadcasting) is limited to a ceiling of 20%, and in the telecommunication sector to 49%. The law in Kazakhstan also requires prior government approval for both domestic and foreign investors in transactions involving assets in industries categorized as “strategic objects.” These include trunk oil pipelines, railway networks, international airports, and entities that directly or indirectly own such assets.[11]
- Kyrgyzstan is one of the more open countries to foreign investments. All sectors are open to foreign investments with the exception of the air transportation sector, where a ceiling of 49% applies to foreign ownership.
- Only Pakistani citizens are permitted to own local newspaper companies while foreign capital participation in press, newspapers, and news agencies is limited to a ceiling of 25%, subject to government approval. Foreign ownership in Pakistani television channels is limited to less than 50%. The Banking Companies Ordinance allows a maximum 49% foreign ownership of Pakistani banks while foreign stakes in local insurance companies is allowed up to 51%.[12]

Investment Climate

As noted earlier, investment flows between Pakistan and CARs remains minimal. There is untapped investment potential in CARS that Pakistani investors can benefit from and strengthen regional cooperation.

Table 4: Central Asian Republics and Pakistan – At a Glance

Indicators	Country					
	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan	Pakistan
Capital City	Astana	Bishkek	Dushanbe	Ashgabat	Tashkent	Islamabad
Area (sq. km)	2,724,900	199,951	143,100	488,100	447,400	796,095
GDP (USD billions)	224.9	7.23	8.51	40.56	55.18	236.5
Real GDP growth (%)	5	7.4	7.4	12.2	7	3.6
Inflation (%)	5.8	6.8	3.7	9	10.1	7.7
Population (millions) 2014 est.	17.95	5.60	8.05	5.17	28.93	196.17
Labor Force	9.02 (2013)	2.34 (2007)	2.21 (2013)	2.30 (2008)	16.99 (2013)	59.21
Unemployment rate (%)	5.3	8.6 (2011 est.)	2.5	-	4.9	6.6
Total Exports (USD billion)	87.23	1.88	1.16	17.13	14.91	25.05
Total Imports Year (USD billion)	52.03	5.08	4.12	12.48	12.64	39.27
Source: The World Factbook						

[10] World Bank, “Investing Across Borders,” http://iab.worldbank.org/ (accessed May 13, 2014)
[11] Ibid
[12] Ibid

The CARs

Collectively, the CARs have a population of nearly 65.7 million, Gross Domestic Product (GDP) of USD 336.38 billion, and offer significant potential for investments. Due to the geographic position of CARs and proximity to Pakistan, increased investments between the economies can lead to enhanced integration between the Central Asian and South Asian region.

Kazakhstan

Kazakhstan dominates the CARs with the largest economy and area, real GDP of USD 224.9 billion and 2.72 million sq. km., respectively. Apart from a growing economy and consumer market, the availability of abundant mineral resources makes Kazakhstan an attractive destination for investors. This is primarily why the extractive industry serves as the backbone of its economic growth. Kazakhstan is ranked 6th largest in the world for mineral resources, 11th in oil reserves, and 17th largest in gas reserves.[13] Kazakhstan also possesses significant amounts of precious stones, and a variety of construction and covering materials. Favorable climate conditions and soil fertility have enabled the country in becoming one of the world's largest grain producer and exporter including wheat, barley, rice, corn, millet and buckwheat.[14] Nevertheless, lack of knowledge regarding sustainable farming methods has adversely affected the production of grain in recent years.

As of 2013, the World Bank's Ease of Doing Business ranks Kazakhstan 50th out of 189 economies, and 22nd for protecting investors. A provision of the 2003 Law on Investments establishes a single investment regime that provides non-discriminatory treatment to foreign and domestic investors. Kazakhstan has also signed bilateral agreements on mutual protection and encouragement of investments with 47 countries, including Pakistan. The subject of diversifying FDI remains the biggest challenge in Kazakhstan. For this reason, the government is actively encouraging policies in line with the framework of Kazakhstan's "2010-2014 State Programme for Accelerated Industrial and Innovative Development" to encourage opportunities in non-extractive sectors such as tourism, pharmaceutical, telecommunication, petrochemical, engineering, and agriculture and food industries among others. The program also intends to improve institutional facilities to enable Kazakhstan to serve as an export hub to other Central Asian countries.

In an effort to further improve the investment climate, nine SEZs have been established across the country which allows foreign companies a selection of privileges including simplified procedures and fiscal and non-fiscal incentives such as zero percent corporate income and value added tax (VAT), reduced land and property tax, and free land for 10 years. The Government of Kazakhstan is also working towards implementing the legal framework necessary for WTO accession. Kazakhstan has held an observer status in the WTO since 1996.

Kyrgyzstan

After independence in 1991, Kyrgyzstan quickly adopted a liberal investment regime conducive to starting a business. Kyrgyzstan was the first CIS country to be accepted into the WTO in December 1998. The country ranks right behind Kazakhstan in the ease of doing business ranking, occupying the 68th position. Kyrgyzstan, like most Central Asian countries, is rich in minerals and is a major wool producer. As of 2013, the country ranks fourth in the CIS region in the production of gold.[15] The investment law in Kyrgyzstan decrees no restrictions on foreign investments in any sector, still, FDI is very low and almost half of the foreign investment goes into a single project, Kumtor gold mining, a joint venture set up by the government of Kyrgyzstan and Cameco Gold Co. of Canada.[16] Remaining sectors with FDI inflow in the country include petrochemical, hoteling, and food processing sectors.

[13] "Kaznex Invest," http://www.invest.gov.kz/?option=content&section=4&lang=en (accessed May 02, 2014)
[14] European Commission, "Central Asia Invest – Making Small Business Grow," (2011), http://ec.europa.eu/europeaid/where/asia/regional-cooperation-central-asia/sme-development/documents/euaido7a-1011-brochure_central_asiai_invest_programme_en.pdf (accessed May 5, 2014)
[15] Chamber of Commerce and Industry Kyrgyz Republic, "Cost of Doing Business in Kyrgyzstan," (2013), http://cci.kg/admin/editor/uploads/files/cost_of_doing_bus_eng.pdf (accessed May 14, 2014)
[16] Ibid

Potential for food production, and fruits and vegetable-processing is large in Kyrgyzstan. The lack of technical expertise concerning quality standards and packaging is however, holding the industry from realizing this potential.

To facilitate and diversify FDI in other sectors, Kyrgyzstan has established FEZs, strategically situated along customs posts and in areas with good transport infrastructure. Some of the incentives for investment in these zones include simplified customs procedures, exemption from several taxes and duties, and direct access to utility suppliers. Furthermore, the government has also signed double taxation treaties with 22 countries including Pakistan, Kazakhstan, Tajikistan and Uzbekistan. Kyrgyzstan has shown interest in joining the Eurasian Economic Community Customs Union, alongside existing member states - Russia, Belarus and Kazakhstan. Negotiations are also underway between the governments of China and Kyrgyzstan for the construction of a railway line which will connect China and Kyrgyzstan to the double landlocked country of Uzbekistan.

Tajikistan

Geographically the smallest of the CARs, Tajikistan is a dominantly mountainous country with comparatively fewer reserves of natural resources. Politically, Tajikistan's relation with Uzbekistan has soured since initiation of the Roghun power station. Uzbekistan, a downstream country, fears the negative impact the dam will have on their lucrative cotton crop as the country lacks sufficient water supplies. Economically and structurally, Tajikistan significantly lags behind other CARs. The investment laws and tax codes provide incentives such as a waiver on taxation on the initial investment, and VAT free imports of some industrial equipment. Despite having an open door economic policy and investment laws that grant equal rights to domestic and foreign investors, Tajikistan primarily attracts state-led investments from countries with a geopolitical interest, rather than making conditions favorable for foreign private sector investors. This is reflected in Tajikistan's low FDI inflows, smallest among the CARs, at USD 290 million in 2013. Realizing this, the government has expressed interest in attracting increased FDI and improving the investment climate in sectors such as energy, telecommunication, construction, food processing, consumer goods, healthcare and natural resources extraction and tourism.

The tourism sector possesses the greatest potential in Tajikistan. Lack of technical skills and knowledge associated with promoting and developing this sector are some of the reasons the industry remains largely unexplored by foreign investors. Nevertheless, improvements such as acceding to the WTO in March 2013, and the construction of FEZs have been made by the government of Tajikistan in recent years. The most populated FEZ is in Khujand, northern Tajikistan, while FEZs along the border of Afghanistan in Nizhniy Panj and Ishkoshim are in the early stages of development.

Turkmenistan

Turkmenistan, geographically the second largest country among CARs, has held a restrictive and state-controlled investment policy with strict visa regimes, since its independence in 1991. Several laws have been adopted by the government of Turkmenistan to regulate investments. As of July 2012, Turkmenistan was elevated to an upper middle income country by the World Bank, alongside Kazakhstan, reflecting the country's strong and increasing economic growth. Legally, there are no prohibited sectors for foreign investments, and no limits on foreign ownership or control of companies; however, foreign investors are disadvantaged as they are subjected to higher tax rates compared to most local companies. The government has shown a preference to foreign investors willing to form joint ventures and fully-owned operations in the oil and gas sectors. Other promising areas for investments are agriculture and construction sectors.

In order to diversify its economy, the government of Turkmenistan is now looking to attract foreign investment in the petrochemical, consumer goods, infrastructure, communication, food processing and packaging, among other sectors. To facilitate the growth in FDI, FEZs have been established that forbid any discrimination towards foreign investors. The FEZs allow domestic and foreign investors the right to conduct business without profit ceilings, and allow repatriation of after-tax profits. Despite these provisions, government interference is widely prevalent in businesses located in these zones. The government is currently in the planning stages of forming a new state agency to facilitate foreign investments by providing sector-specific market research to interested foreign investors. The agency is also expected to grant work permits and tenders to companies looking to operate in Turkmenistan.

Uzbekistan

Uzbekistan enjoys a unique location within Central Asia, bordering all the CARs and Afghanistan. The country has the largest population in Central Asia, an estimated 28.9 million in 2014[17], solid infrastructure, and the largest labor force, estimated at 16.99 million as of 2013[18]. Uzbekistan benefits from abundant natural resources including natural gas, petroleum, coal, gold, uranium, silver, copper, lead and zinc, tungsten and molybdenum (used in making of steel alloys). The government of Uzbekistan, like other CARs, considers attracting foreign investment a priority. In practice however, without the support of the government and other state affiliated entities investors have little scope for investments.

The government of Uzbekistan provides investors incentives in accordance with its policy of import-substitution and increasing exports. The policy encourages investments in sectors such as oil & gas exploration, renewable energy, textiles, tourism infrastructure and manufacturing building materials, and machinery and mechanical components. At the same time, the state retains partial ownership and influence in almost all sectors. The government prohibits and limits foreign investment in several sectors. Airlines, railways, and power generation are examples of sectors in which foreign ownership and control is prohibited.[19] In addition, the government also regulates investments and capital flows in the raw cotton market and controls all silk sold in the country. Several Special Industrial Zones (SIZs) have also been established in Uzbekistan. Depending on the locality of the zone, investors may benefit from special customs, currency, and tax regimes, as well as simplified provisions for setting up and terminating businesses.

[17] "World Factbook," https://www.cia.gov/library/publications/the-world-factbook/ (accessed May 7, 2014)
[18] Ibid
[19] Bureau of Economic and Business Affairs "2013 Investment Climate Statement - Uzbekistan," *US Department of State,* (February, 2013) http://www.state.gov/e/eb/rls/othr/ics/2013/204758.htm (accessed April 12, 2014)

The European Union (EU) and the Organization for Economic Co-operation and Development (OECD) Role in Promoting Economic Development in CARs

The OECD and the EU have established a long working relationship in areas of economic development. In 2008, the OECD launched the “Central Asia Competitiveness Initiative,” funded by the EU to build on OECD’s past experience of supporting economies seeking to increase trade and investments. Based on OECD’s South East Europe Model, the Central Asia initiative is centered around three principal actions:

1. Sharing OECD best practice and policy experience to improve the business climate.
2. Supporting dialogue and exchanging experiences for reforms.
3. Helping public authorities develop policies that support local business and encourage foreign investment.

Projects approved so far focus on policy reforms, capacity building, transferring technical awareness and know-how for improving regional integration, as well as, sectoral development in individual countries. Targeted sectors in the individual CARs include:

Kazakhstan:
1. Textiles
2. Agro-business & Food-processing
3. Tourism
4. Transport & Logistics
5. Healthcare

Kyrgyzstan:
1. Textiles
2. Agro-business & Food-processing
3. Handicraft
4. Tourism
5. Transport & Logistics
6. Healthcare

Tajikistan:
1. Agro-business & Food-processing
2. Tourism
3. Handicraft

Turkmenistan:
1. Agro-business & Food-processing
2. Tourism

Uzbekistan:
1. Textiles
2. Agro-business & Food-processing
3. Tourism
4. Transport & Logistics
5. Healthcare

Pakistan

Pakistan is the sixth most populous country in the world with an estimated population of 196 million, growing at a rate of 1.49%, as reported in 2014.[20] Strategically located in South Asia, Pakistan borders the Arabian Sea in the south, India on the east, Iran and Afghanistan on the west, and China in the north. Pakistan has been a member of the WTO since January 1, 1995.

Table 5: Pakistan Investment Package - At a Glance

Policy Parameters	Manufacturing Sector	Non -Manufacturing Sectors		
		Agriculture	Infrastructure & Social	Services including IT & Telecom Services
Govt. Permission	Not required except 4 specified industries *	Not required except specific licenses from concerned agencies.		
Remittance of capital, profits, dividends, etc.	Allowed	Allowed		
Upper Limit of foreign equity allowed	100%	100%**	100%	100%
Customs duty on import of PME	5%	0%	5%	0-5%
Tax relief (IDA, % of PME cost)	25%	25%		
Royalty & Technical Fee	No restriction for payment of royalty & technical fee.	Allowed as per guidelines - Initial lump-sum up to $100,000 - Max Rate 5% of net sales - Initial period 5 years		
Source: Board of Investment – Pakistan				

[20] World Factbook, https://www.cia.gov/library/publications/the-world-factbook/ (accessed April 12, 2014)

Investments in Pakistan are governed by the Investment Policy of 2013, Foreign Private Investment Act of 1976, and the Economic Reforms Act of 1992. Under the Investment Policy of 2013, Pakistan has one of the most liberal investment policy regimes and public-private partnership frameworks in the entire South Asian region. The law also provides incentives including tax exemptions, reduced customs tariffs, and investor facilitation services. All sectors, except those prohibited by the government of Pakistan (GoP) due to national security concerns including arms and ammunition, high explosives, radioactive substances, currency minting operations, and alcoholic beverages are open to foreign investors. In reality, the arbitrary implementation of regulations governing investment laws makes it difficult for many foreign investors to become established in Pakistan.

Foreign investors enjoy the rights of repatriation of profits and dividends at any time. Pakistan has attracted foreign investment in the construction, communication, beverages, financial services, and chemical sectors. Potential to invest in the power generation, infrastructure, and natural resources sectors also exists. The investment policy encourages investment in social and infrastructure sectors by allowing complete foreign ownership on a minimum investment of USD 300,000.[21] Fast moving consumer goods (FMCGs) are an attractive sector and many multinational companies are present in the Pakistani market including Unilever and Procter & Gamble, among others. In addition, tourism, housing, construction, and IT sectors have been given the "special industry" status in Pakistan. This allows them to benefit from lower tax and utility rates. In April 2014, the GoP concluded the auction of 3G and 4G spectrum licenses, leading to an influx of USD 1.1 billion in foreign investments in the telecommunications sector. The licenses were purchased by Russian-owned Mobilink, Chinese-owned Zong and Norwegian-owned Telenor, along with Ufone, which is jointly owned by the GoP and UAE's telecom company, Etisalat. [22]

The GoP adopted the SEZ legislation in 2012. The law aims at creating industrial clusters, improving infrastructure, and offering investor facilitation services to reduce the cost of doing business in Pakistan. Apart from being an attractive market for a large consumer base, Pakistan also has a sizable work force of over 59 million,[23] cheap labor, and low cost of production, all of which are desirable features for any foreign investor. Pakistan also caters to short order supplies unlike most developed economies. Additionally, being a primarily agrarian economy, Pakistan produces raw materials that directly feed into the value-added production processes for some industries.

Competition for Pakistani Investors in CARs

For investment in CARs, Pakistan primarily competes with Great Britain, Russia, China, USA and Turkey. Pakistan was among the top five investors in Tajikistan in 2012, at USD 10.5 million, after Russia, Iran and the UK. [24]

Stakeholder review of Pakistani pharmaceutical companies operating in the CARs suggests that European, Russian, and Indian pharmaceutical products are the biggest competition that Pakistani products face in the region. CARs are positively biased towards European products forcing Pakistani investors to discount product prices to compete in the market.

In the banking sector, European banks do not have a significant presence in the region; Pakistani banks primarily compete with existing local banks. According to the NBP, which has presence throughout CARs, the ratio of international to local banks is roughly 40% to 60% in Kazakhstan.

[21] Bureau of Economic and Business Affairs "2013 Investment Climate Statement - Pakistan," *US Department of State,* (February, 2013) http://www.state.gov/e/eb/rls/othr/ics/2013/204710.htm (accessed April 12, 2014)
[22] Sohail Iqbal Bhatti, "$ 1.1 billion raised from 3G, 4G auction," Dawn News, (April 23, 2014), http://www.dawn.com/news/1101760 (accessed May 15, 2014)
[23] World Factbook, https://www.cia.gov/library/publications/the-world-factbook/ (accessed May 6, 2014)
[24] Bureau of Economic and Business Affairs "2013 Investment Climate Statement - Kazakhstan," US Department of State, (February, 2013) http://www.state.gov/e/eb/rls/othr/ics/2013/204668.htm (accessed April 19, 2014)

Barriers to Investment

Despite the vast potential for bilateral investments between CARs and Pakistan, various barriers hinder the flow of FDIs in these countries that must be addressed to encourage investments and gain investors' trust.

The CARs

Seemingly, all CARs ensure a non-discriminatory (even if restrictive) investment regulatory regime and guidelines for all foreign investors. In practice however, excessive red tape, maladministration, inconsistent standards, irregular application of laws and regulations, weak institutions, lengthy registration and visa procedure, and inadequate infrastructure are some of the barriers that discourage foreign investors. While these impediments are country specific, a number of cross-cutting obstacles exist throughout CARs.

Government Interference

Many potential investors claim that there is excessive interference with foreign investors by the governments in CARs. This is especially prevalent in the more restrictive countries where government officials are often accused of misusing regulations for personal gain. For this reason, personal relations with relevant authorities play a decisive role in determining how and when regulatory policies are applied.[25] Similarly, some CARs offer incentives for foreign investors on a case-by-case basis; the government also reserves the right to cancel registration, withdraw a license or close a business without any prior warning, and in some cases, without any explanation. Procedures for licensing and approvals for establishing a business are not always transparent, discriminatory fees are charged and frequent delays are common. Consequently, all CARs rank low in the Transparency International CPI.

Work Permits

Foreign investors are required to obtain work permits to be able to invest in the CARs. In this regard, difficulty in obtaining a permit is cited to be a hindrance in most CARs involving bureaucratic delays, frequent changes in fees, and denial of visas without explanation. Furthermore, since there is an inadequate supply of skilled workers in most CARs, foreign investors are often required to hire foreign labor, usually from their home countries with skill sets relevant to proposed business activities. Difficulties and delays in obtaining work permits additionally discourage foreign investors.

Dispute Settlement

Foreign investors have often become involved in disputes over licensing and registration. While several laws are in place for international dispute settlements via arbitration in all CARs, there is no guarantee that the government will honor a favorable verdict. Even when investment disputes are resolved in accordance with the contract conditions, the process of reaching a resolution can involve considerable time and resources.

Arbitrary Regulatory Guidelines

Regulatory guidelines that change arbitrarily, inadequate infrastructure, and weak logistics increase the cost of investing in the CARs. This becomes a discouraging factor for many foreign investors who manufacture products in their home countries and have subsidiaries established in more than one CAR.

Language Barriers

Language barriers are a major obstacle due to the non-availability of translation facilities. This creates an information gap between the concerned government organizations, investors, and employees, causing difficulty in conducting business, and increasing the likelihood of disputes due to misunderstandings.

[25] Bureau of Economic and Business Affairs "2013 Investment Climate Statement - Turkmenistan," US Department of State, (February, 2013) http://www.state.gov/e/eb/rls/othr/ics/2013/204752.htm (accessed April 24, 2014)

International Centre for Settlement of Investment Disputes Convention (ICSID)

ICSID is an autonomous institution considered to be one of the leading international arbitration institutions for investor-state dispute settlement. The primary purpose of ICSID is to facilitate conciliation and arbitration of international investment disputes. The convention was formulated by the International Bank for Reconstruction and Development and has been functioning as a multilateral treaty since 1966. ICSID is also known as the Washington Convention and has more than 140 member countries, including Kazakhstan, Turkmenistan, Uzbekistan and Pakistan; Kyrgyzstan holds a signatory position.

In addition to the aforementioned barriers, other issues unique to Pakistan discussed during stakeholder reviews included the following:

- Due to inadequate transport infrastructure there are several impediments that Pakistani investors face while transporting products. With no direct freight and commercial flights from Pakistan to CARs, the routes to access the countries are unnecessarily long and costly. If the land route is used there are security concerns, time delays, and the cargo is prone to damage. Pakistani investors are especially apprehensive when transporting products via Afghanistan, ideally the shortest route, as it has weak infrastructure and volatile security conditions.

- Pakistani investors face a significant perception challenge in the international market. Stakeholder review of pharmaceutical companies suggests that consumers in CARs prefer European products. This perception affects profit margins for Pakistani manufacturers since their products are marketed at a lower price.

A favorable domestic economic environment is crucial for stimulating foreign investments. The governments of CARs must address these distortions and irregularities and continue institution-building to increase and diversify investment in the region.

Pakistan

Despite an inviting investment regime and vast potential, many challenges including a lack of stable and predictable energy supply, a volatile security climate, and political instability have contributed to reduced FDI inflows to Pakistan during the past few years. Non-transparent and arbitrary policies and regulations have resulted in increasing mistrust and lack of confidence among foreign investors.

Corruption is another factor deterring the growth of FDI in Pakistan. Transparency International's CPI ranking positions Pakistan at 127 out of 177 countries with only Afghanistan and Bangladesh being less transparent in the South Asian region.

Inadequate infrastructure facilities in Pakistan lead to increased transaction costs and limited access to markets (locally and regionally), consequently discouraging FDI.

Other barriers impeding investments in Pakistan include weak and non-transparent financial institutions, lengthy procedures for registering businesses, unnecessary delays in acquiring documents for setting up business, and complex taxation policies.

Trans-Regional Energy: CASA 1000 and TAPI

Central Asia-South Asia Electricity Transmission and Trade Project (CASA 1000) is a multilateral investment with support from the World Bank Group, Islamic Development Bank, United States Agency for International Development (USAID), and other donor committees. The project aims to export summer energy surplus from Tajikistan and Kyrgyzstan to Pakistan and Afghanistan. This project is still in its early phase and feasibility studies are being conducted; the project is expected to be completed by June 2020. CASA 1000 is ideally suited for the region since Kyrgyzstan and Tajikistan produce surplus electricity during the summer months when demand for power is the greatest in Pakistan and Afghanistan.

Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline will bring natural gas from Turkmenistan to Afghanistan, Pakistan and India. This project is facilitated and coordinated by the Asian Development Bank (ADB) with an expected completion date in 2017. Once implemented, the pipeline will have the capacity to supply 3.2 billion cubic feet of natural gas per day from the Yoloten/Osman and adjacent gas fields in Turkmenistan.

Collectively, the two projects will significantly improve the energy shortfalls in Pakistan. Energy shortage and unpredictable supplies are major deterrents to investors in Pakistan since the government cannot ensure uninterrupted supply of electricity. Overall, the projects will have a transformative impact on all sectors and industries including transportation, telecommunication, and manufacturing. The projects will also improve the economic situation in Tajikistan, Turkmenistan, and Kyrgyzstan, as they will earn foreign exchange from the sale of surplus electricity and natural gas.

Herbion Pharmaceuticals: Overcoming Language Barriers

English is not a widely spoken language in the CARs. Along with Russian, various regional languages are used for business and government documents. The language barrier poses a significant problem for Pakistani investors interested in doing business in CARs ranging from understanding legal requirements to dealing with paperwork and local employees.

Herbion Pharmaceuticals, a Karachi based company marketing herbal products in Central Asia, tackles this problem in an innovative way. Instead of relying on interpreters, translators and third-party middlemen, Herbion hires Pakistanis educated in Russia and former USSR states to serve in their regional offices in Central Asia. Other employees, who do not speak the language, are given a short training of the basics of the Russian language before being transferred to offices in CARs. This approach has proved successful for Herbion, which currently has operations in all CARs

Recommendations

- Bridge the information gap: Lack of information on the opportunities, benefits and impediments related to investing in Pakistan and CARs can be reduced with knowledge sharing through business to business interactions of relevant stakeholders and chambers of commerce and industries. The recent efforts by the GoP, Pakistan Chambers, and USAID in arranging CABOC in Pakistan is the first of many steps towards improving the trade and investment environment, and strengthening regional integration between Pakistan and CARs.

- Harmonize regulatory investment framework in CARs: In a world where geographical regions are moving towards uniform regulatory systems -- as is the case in the EU, the African Union, and even the ASEAN region -- the CARs may consider harmonizing investment regulations and establishing a single regulatory authority to facilitate further FDI.

- Enforce non-discriminatory standards for foreign investors in CARs: Policy reforms fostering improved investment climates should apply non-discriminatory standards on foreign investments and focus on the implementation of these reforms in targeted sectors that create a competitive environment.

- Reduce procedural delays: Pakistan and CARs need to focus on reducing the time required to obtain documents necessary for setting up a business by eliminating unnecessary delays. Relevant establishments in charge of these processes should be reformed. Streamlined processes will provide incentive for foreign investors and improve the Ease of Doing Business rankings.

- Strengthen investment promotion institutions: Institutions responsible for investment promotion in Pakistan and CARs should be transparent and encourage accountability to reduce existing corruption and bribery. This will also help Pakistan and CARs to improve their Transparency International CPI rankings.

- Establish training centers for cross culture awareness: Learning intuitions should be established for cross-cultural understanding and specifically cater to bridging language barriers.

- Ensure government support to potential investors: The governments of Pakistan and CARs should further strengthen diplomatic relations with each other and adopt a targeted strategy to encourage FDI throughout the region.

- Promote transparency and accountability: Strive for predictability and transparency in policies and regulations.

Case Studies

Success Story: National Bank of Pakistan (NBP)

Background
NBP is a state owned commercial bank established in 1949. It is one of the largest commercial banks operating in Pakistan and provides commercial and public sector banking services. NBP has a network of more than 1300 branches in Pakistan and has shares listed in Lahore, Karachi and Islamabad Stock Exchanges.

International Network
NBP began its international operations in 1950 when it set up operations in Jeddah, Saudi Arabia. The bank's initial strategy was to establish a presence in all major trading partners of Pakistan including USA, UK, France, Germany, and Japan. Currently, NBP has representative offices (RO) in Beijing, Chicago, Tashkent and Toronto, and operates branches in Europe, North America, South, Central and East Asia, and the Middle East.

Central Asia Network
In recent years, NBP has focused on creating a presence in emerging markets. With the breakdown of the Soviet Union, NBP established ROs in the CARs. These ROs were located in Ashgabat (Turkmenistan), Tashkent (Uzbekistan), Almaty (Kazakhstan), Bishkek (Kyrgyzstan) and Dushanbe (Tajikistan). Subsequently, these ROs were converted into branches in Turkmenistan and Kyrgyzstan and subsidiary branches in Kazakhstan and Tajikistan. NBP is the only international bank with a wide network in CARs. It has been the most successful in Kazakhstan where it operates three branches and a regional office. In addition to these five CARs, NBP operates four branches in Afghanistan and another in Baku, Azerbaijan. There is currently no NBP branch in Tashkent, however, the RO in Tashkent, along with the regional office in Almaty are continuing efforts to establish a branch.

Operations and Services
NBP branches and subsidiaries offer various products and services to their customers in CARs. These include local and foreign currency accounts for individuals and companies, cash transactions including deposits and withdrawals, foreign exchange operations, short and medium term loans, international and domestic money transfers, and in some countries, ATM, debit card, and electronic banking services. NBP also caters to the trade finance needs of its customers by issuing guarantees, and advising, negotiating and issuing letters of credit. NBP clients in these countries are local and foreign individuals and businesses, international traders, and Pakistanis using NBP services for remittances.

Competition
NBP is one of the largest international banks present in Central Asia and enjoys a wide network of branches and subsidiaries. Other Pakistani banks have not been as successful in navigating the regulatory environment in Central Asia. Bank Alfalah and United Bank Limited were unable to convert ROs into branches in CARs and ultimately withdrew from the region. Currently, Habib Bank Limited is the only other Pakistani bank in Central Asia with a branch in Kyrgyzstan. NBP is largely competing with local, Turkish, Iranian and European banks.

Barriers
The banking sector is relatively underdeveloped in Central Asia and NBP encounters several difficulties in doing business. The equivalent of Negotiable Instruments Act of Pakistan is not present in some Central Asian countries, preventing trade against a bill of exchange. Similarly, loan settlement is relatively easy in Kazakhstan and Turkmenistan, but in other CARs banks assume disproportionate risks. The central banks in these countries offer weak regulation of the financial sector.

Politics and disparate application of laws also play a significant role in the regulatory process. In Uzbekistan for instance, NBP has been denied permission to open a branch by the Central Bank of Uzbekistan, citing that only banks with a AAA rating can operate branches; however, other banks without a AAA rating - Bank Sedarati Iran being one of them - are reportedly permitted to operate in the country. NBP is working with the Pakistani embassy to address these discriminatory policies through diplomatic channels.

Way Forward

NBP is planning further expansion of its subsidiary network in Kazakhstan where it already has a presence in both urban and rural markets. Further expansion will establish NBP as a formidable banking institution in the region. Kazakhstan is already the most thriving economy in Central Asia and a big market for financial services. In addition, opening an NBP subsidiary in Moscow has been approved. Central Asia has extensive historic trade and investment ties with Russia and expansion to Russia will further anchor NBP in the Central Asian region.

NBP presents a success story for Pakistani businesses, having established a successful business in Central Asia. NBP operates a profitable network of branches and subsidiaries in all of CARs, except for Uzbekistan, which is remarkable given the difficult regulatory environment in this region.

Success Story: Getz Pharmaceuticals

Introduction to Getz Pharmaceuticals

Getz Pharmaceuticals is one of Pakistan's largest branded generic companies and the leading Pakistani exporter/importer of medical supplies. Since operations started in Pakistan in 2005, Getz Pharma has branched out to several other countries and is now operating in 22 countries around the globe. It has the third largest presence in Pakistan and the largest in Afghanistan.

Getz Pharma has grown from having 4 brands in 1995 to a total of 500 brands in 2014. It also stands among the first few companies to have ventured into biotech. Getz is currently a brand leader in the areas of hepatology, gastroenterology, cardiovascular and diabetes, pulmonary ENT & chest, rheumatology, and infectious diseases. It attributes its success to three primary factors: investing in a world class manufacturing facility, focusing on research and development, and expanding geographically.

Investing in the CARs

Recognizing the investment potential for pharmaceuticals in Central Asia, Getz Pharma began investing in the region in 2005, starting with marketing and sales operations in Tajikistan. In 2008, it started operations in Kazakhstan and launched eight brands. Getz Pharma works with local distributors in Kazakhstan to run its operations and aims to launch another 10 brands in the coming years.

Getz Pharma has managed to achieve a significant presence in Tajikistan and Kazakhstan over the past nine years, with its primary competition being European generics. Strategies employed by Getz Pharma to make inroads in the two CARs include dissemination of medical knowledge, disease awareness and prevention campaigns, public awareness campaigns, equipping and supporting the local medical community, and continued investment in technology.

Barriers

With nearly a decade of investment experience in the CARs, Getz Pharma has identified several barriers that impede the investment process in CARs' pharmaceutical industry.

Getz Pharma highlighted the presence of diverse and arbitrary regulatory guidelines in the CARs as a significant barrier to investment, especially for smaller companies looking to enter the market. Each CAR has a set of unique regulatory standards that need to be met by foreign investors. For companies that want to invest in some or all of the CARs complying with regulatory standards of each CAR is not only costly but also a lengthy procedure.

Other impediments include a prevalent language barrier, an absence of direct flights from Pakistan to the CARs, and minimal government support to investors.

Recommendations

Considering the significant potential to invest in pharmaceuticals in the CARs, Getz Pharma suggested that the GoP play a more proactive role in encouraging investments. Getz recommended that the Trade and Development Authority of Pakistan (TDAP) assist existing and potential investors to benefit from the profit margins available in the CARs region. Since pharmaceutical products are temperature sensitive, refrigerated warehouses, temperature controlled vehicles, and expedited customs procedures will significantly help reduce costs and increase investment.

A harmonized regulatory framework throughout the CARs would increase pharmaceutical investment to a great extent. Investors would no longer have to follow different regulatory guidelines for each CAR and be able to save on costs as well as on time. Getz Pharma also suggested that the regulatory framework in Pakistan be revised for the pharmaceutical industry since it is currently among the most heavily regulated sectors.

Annex 1: Regulatory Framework – CARs and Pakistan

Kazakhstan

Policy and Promotion

FDI in Kazakhstan is regulated by five primary laws:

- 2003 Law on Investments
- 2003 Customs Code
- Tax Code 2008
- Law on Currency Regulation and Currency Control
- Law on Government Procurement.

The Law on Investments 2003 adopted a single investment regime for foreign and domestic investors, allowing several international firms to set up regional headquarters in the country. Additionally, in 2011 the government adopted a "National Plan for Attracting Investment" with the goal of improving the investment climate by simplifying visa procedures, customs clearance, and transit across borders. Following this, every regional government in Kazakhstan established an investors' service center in 2012. The country's Law on Investments (2003) and Tax Code (2008) provide incentives to foreign investors in the form of tax preferences, in-kind grants, and customs duty exemptions. Moreover, the Labor Code allows foreign investors to own land for building industrial as well as non-industrial structures.

Types of Businesses

Foreign investors in Kazakhstan can establish full partnerships, limited liability partnerships, joint stock companies, representative offices and branch offices.[26] Joint stock companies and limited liability partnerships are the most common.

The minimum charter capital requirement for each type of business is as follows:

- Limited liability partnership; KZT 161,800
- Joint Stock Company: KZT 80.9 million
- Banks: KZT 10 billion
- Insurance organizations: KZT 1.1 billion – 1.6 billion

Prohibited sectors

Although no legal restrictions exist for foreign investors in any sector, foreign ownership in the media and telecommunication sectors is limited to ceilings of 20% and 49%, respectively. The restriction in the telecommunication sector is expected to be reduced after Kazakhstan's accession to the WTO.[27] Additionally, there is a ban on foreign-owned bank and insurance companies in Kazakhstan, but no constraint on the participation of foreign capital in the banking and insurance sectors through subsidiaries.

Labor

As per the 2011 law on migration, foreign citizens with a Kazakh residence can work in the country without obtaining additional work permits. Foreign workers without a Kazakh residence have to obtain work permits, an expensive and lengthy process. In order to increase domestic employment, the government of Kazakhstan has established quotas for issuing work permits to foreigners based on area of specialization and geographic region. The 2011 amendment to the Expatriate Workforce Quota and Work Permit Rules require medium and large businesses have 90% local employees for

[26] "Doing Business Guide Kazakhstan," PWC, (October 1, 2012) http://www.pwc.kz/en/home_page_banner/dbg_kazakhstan_2012_v8.pdf (accessed April 5, 2014)
[27] Bureau of Economic and Business Affairs "2013 Investment Climate Statement - Kazakhstan," US Department of State, (February, 2013) http://www.state.gov/e/eb/rls/othr/ics/2013/204668.htm (accessed April 19, 2014)

technical personnel and 70% in executive positions.[28] Given the lack of specialized skilled workers in the country most foreign companies find it hard to meet the requirements.

Economic Zones

Since implementation of the 2011 Law, foreign companies have been allowed to establish businesses in the SEZs that encourage investments through simplified procedures for domestic and foreign investors. Kazakhstan has set up 9 SEZs across the country that offer corporate income tax exemption, VAT exemptions for goods and services, land and property tax exemptions, and a special customs zone regime, independent of the Custom Union rules.[29] Non fiscal incentives in the SEZs include ease of recruitment of foreign labor, and provision of free land for up to 10 years from the time of registration as an SEZ resident.[30] The SEZs are located in the capital city, Astana, the Astana-New City, Sea Port Aktau, in Aktau, the Information Technology Park, near Almaty, the Ontustik (textiles) SEZ in Sayram district in southern Kazakhstan, the National Industrial Petrochemical Technopark in Atyrau area, the tourism zone Burabay, in the Shuchinsk district of the Akmola region, the transport-logistics center, Khorgos in eastern Kazakhstan, a chemical and petrochemical SEZ in Pavlodar, and the Sary-Arka, a metallurgy and metalworking SEZ near Karaganda.

Kyrgyzstan

Policy and Promotion

The FDI regime in Kyrgyzstan is governed by the Foreign Investment Law adopted in March 2003. The law is designed to provide an open and liberal investment policy even though implementation of the law is not always efficient.

The investment law treats foreign and domestic investors equally and promises non-discrimination. In Kyrgyzstan, investors are protected by a "grandfathering clause,"[31] which secures investments from a change in laws for ten years.[32] Businesses are also protected from nationalization and expropriation (i.e., the government cannot expropriate any business without due payment). [33] In practice however, such proceedings drag on in court for many years.

There are no restrictions placed on currency conversions and transfers. Foreign exchange is easily and freely available.

A new business and investment friendly tax law was introduced in January 2009.[34] Payable taxes include corporate income tax, individual income tax, VAT, excise tax, property tax, sales tax, land tax, and subsoil use tax among others.[35]

[28] Bureau of Economic and Business Affairs "2013 Investment Climate Statement - Kazakhstan," US Department of State, (February, 2013) http://www.state.gov/e/eb/rls/othr/ics/2013/204668.htm (accessed April 19, 2014)
[29] Tax & Legal, "Doing Business in Kazakhstan 2013: Reach, Relevance and Reliability," Deloitte, (2013) http://www.deloitte.com/assets/Dcom-Kazakhstan/Local%20Assets/Documents/T&L/En/Brochures/Doing%20business%20in%20KZ_2013.pdf (accessed February 16, 2014)
[30] "Kazakhstan National Export and Investment Agency," http://www.kaznexinvest.kz/en/ (accessed May 5, 2014)
[31] A grandfather clause is a provision that protects investors from arbitrary change in policy by ensuring that the old rule continues to apply for existing investors, while the new rule is applied for future cases.
[32] Tax & Legal, "Tax and Investment Guide: Reach, Relevance and Reliability," Deloitte, (2013) http://www.deloitte.com/assets/Dcom-Kazakhstan/Local%20Assets/Documents/T&L/En/Tax%20and%20Investment%20Guide_KG.pdf (accessed February 19, 2014), 4
[33] Bureau of Economic and Business Affairs "2013 Investment Climate Statement – Kyrgyz Republic," US Department of State, (February, 2013) http://www.state.gov/e/eb/rls/othr/ics/2013/204673.htm (accessed April 24, 2014)
[34] Ibid
[35] Tax & Legal, "Tax and Investment Guide: Reach, Relevance and Reliability," Deloitte, (2013) http://www.deloitte.com/assets/Dcom-Kazakhstan/Local%20Assets/Documents/T&L/En/Tax%20and%20Investment%20Guide_KG.pdf (accessed February 19, 2014)

Types of businesses

A foreign entity can establish several different types of businesses including limited liability companies, joint stock companies, and a branch or representative office. Joint stock companies are of two kinds, an open joint stock company can have unlimited shareholders while a closed joint stock company is limited to fifty shareholders.[36] The law does not distinguish between a branch and representative office and they can perform the same functions.[37]

In order to start a business, foreign firms are required to register with the Ministry of Justice, Kyrgyzstan.[38] Registration of firms is governed by the "On State Registration of Legal Entities, Branches and Subsidiaries" law. The one-stop system makes the registration process simpler by reducing time lags.

Prohibited Sectors

There are no legal restrictions limiting the sectors in which a foreign entity can invest except for a 49% ceiling on foreign investment in the air transportation sector. Foreigners are prohibited from buying land although it can be leased for up to 99 years.[39] In practice, barriers exist in the form of limited access to markets and credit, as well as complicated licensing and regulatory requirements.[40]

Labor

Foreign workforce is governed by the Kyrgyz Labor Code and the immigration law. In order to employ foreign workers the employer must first obtain a permit to hire foreign workers. Once the permit has been issued the employer can procure work permits for individual employees.[41] There are specific quotas limiting the number of foreign workers in Kyrgyzstan, and work permits are usually valid for a year.[42] Permanent Kyrgyz residents are not required to obtain work permits to work legally in the Kyrgyz Republic.[43]

Economic Zones

There are five FEZs in Kyrgyzstan of which two are located in Bishkek, and one each in Naryn, Karakol, and Maimak. These FEZs are strategically situated to make use of transport corridors and custom posts along the Kyrgyz border.[44] Investors can benefit from tax and customs duty exemptions and simpler procedures in these zones. Prohibited sectors in these SEZs are petroleum, liquor, and tobacco.

Tajikistan

Policy and Promotion

Tajikistan's Investment Law advocates equality of rights between foreign and local investors, however, poor implementation of these laws leads to informal barriers to foreign investment. The current investment laws and tax code provide several incentives to foreign investors including a tax waiver on initial investment, and zero percent VAT on the import of some industrial equipment. Tajikistan implemented the "single window" system which is aimed at reducing red tape by allowing

[36] Tax & Legal, "Tax and Investment Guide: Reach, Relevance and Reliability," Deloitte, (2013) http://www.deloitte.com/assets/Dcom-Kazakhstan/Local%20Assets/Documents/T&L/En/Tax%20and%20Investment%20Guide_KG.pdf (accessed February 19, 2014)
[37] Ibid
[38] Bureau of Economic and Business Affairs "2013 Investment Climate Statement – Kyrgyz Republic," US Department of State, (February, 2013) http://www.state.gov/e/eb/rls/othr/ics/2013/204673.htm (accessed April 24, 2014)
[39] Ibid
[40] Tax & Legal, "Tax and Investment Guide: Reach, Relevance and Reliability," Deloitte, (2013) http://www.deloitte.com/assets/Dcom-Kazakhstan/Local%20Assets/Documents/T&L/En/Tax%20and%20Investment%20Guide_KG.pdf (accessed February 19, 2014)
[41] Ibid
[42] Ibid
[43] Ibid
[44] Bureau of Economic and Business Affairs "2013 Investment Climate Statement – Kyrgyz Republic," US Department of State, (February, 2013) http://www.state.gov/e/eb/rls/othr/ics/2013/204673.htm (accessed April 24, 2014)

foreign and domestic investors to pay a fixed fee to the tax committee and receive permit to start operating within five working days.[45]

In 2006, the State Committee on Investments and State Property was created to facilitate investors but failed to achieve much. There is an absence of an investment promotion agency, and hence a transparent criterion for evaluating investment proposals is non-existent. Instead of going through a single investment promotion agency, potential investors are required to be reviewed by all concerned state agencies, making the process unnecessarily lengthy and tedious.

There is no performance requirement for foreign investors to establish or expand their business in the country. Tax and customs incentives offered to foreign investors are the same as those offered to local investors. Even though "buying locally" is not a requirement it is definitely encouraged in Tajikistan.

Types of Businesses

Tajikistan's Investment Law grants equal rights to foreign and local investors. In Tajikistan, foreign investment can be made by:[46]

- Owning a share in existing companies, either jointly with other Tajik companies or Tajik citizens;
- Creating fully foreign-owned companies under the laws of Tajikistan;
- Acquiring assets, including shares and other securities;
- Acquiring the right for use of land and other mineral resources, as well as exercising other property rights either independently or shared with other Tajik companies and citizens of Tajikistan; or
- Concluding agreements with legal entities and citizens of Tajikistan providing for other forms of foreign investment activity.

Prohibited Sectors

No sectors in Tajikistan are prohibited to foreign investments; however, various sectors including transportation, infrastructure, and electricity distribution and maintenance are completely owned by the government.[47]

Labor

The Labor Code of Tajikistan is the primary legislative act regulating labor relations in the country. Foreign persons without a Tajik citizenship can work in entities based on procedures defined for legal residents of Tajikistan, except in cases defined by the government. Tajikistan has been a member of the International Labor Organization (ILO) since 1993. It is a party to 44 international labor conventions including the Worst Forms of Child Labor Convention that is dedicated to eliminating child labor and protecting children and young people.[48]

Economic Zones

There are currently four FEZs in Tajikistan that offer preferential treatment to investors including reduced taxes and customs fees. The law has set a minimum investment requirement for each sector in order to benefit from these incentives. Khujand, the most developed FEZ, currently hosts companies from Turkey, Russia, China, Belarus and Poland. The other three FEZs are located in Dhangara, Nizhniy Panj and Ishkoshim, and are still in the process of being developed.

[45] Bureau of Economic and Business Affairs "2013 Investment Climate Statement – Tajikistan," US Department of State, (February, 2013) http://www.state.gov/e/eb/rls/othr/ics/2013/204743.htm (accessed April 24, 2014)
[46] Ibid
[47] Ibid
[48] Ibid

Turkmenistan

Policy and Promotion

The Law on Foreign Investment (amended in 2008) defines a foreign investor as an entity owning a minimum 20% of a company's assets.[49] This law is the primary legal instrument defining the principles for investments in the country. Other relevant foreign investment legislation includes:

- The Petroleum Law of 2008 (Law on Hydrocarbon Resources, last amended in May 2012)
- Land Code of 2004
- Bankruptcy Law of 1993Law on Investments (last amended in 1993)
- Law on Corporations of 1999
- Law on Enterprises of 2000
- Law on Business Activities (last amended in 1993)
- The Civil Code enforced since 2000
- Law on Property 1993

The government plans to form a new foreign oversight state agency to facilitate foreign investment by providing sector-specific market research to interested foreign investors. The agency is also expected to grant work permits and tenders to companies willing to operate in Turkmenistan. Currently, foreign investment in the country is regulated by the Law on Foreign Investment, the Law on Investments and the Law on Corporations.

With a restrictive investment climate, most decisions to allow foreign investment in the country are politically driven. Given this, companies that choose to invest in Turkmenistan often enter the market by working with foreign businesses that already have a relationship with the government of Turkmenistan.

Types of Businesses

Foreign entities have the right to establish subsidiaries, representative and branch offices with an exception of engaging in certain commercial activities. Government approval is also necessary for acquisitions and mergers of certain enterprises specifically those involving state shares.

Prohibited Sector

Legally there are no prohibited sectors for foreign investment and no limits on foreign ownership or control of companies. Foreign investors are disadvantaged as they face a higher tax rate compared to most local companies. The government has shown a preference for foreign investors to form joint ventures and fully-owned operations in the oil and gas sectors.

Labor

Employment relations in Turkmenistan are regulated by the Labor Code and the Social Welfare Code. Foreign workers are subject to the same regulations as local workers. Any foreigner with government permission to reside in the country can legally take up employment.

Economic Zones

There are currently 10 FEZs in Turkmenistan. According to the 1993 Law on Economic Zones for Free Enterprise, both foreign and domestic businesses in the FEZ can operate without a profit ceiling, and cannot be nationalized. In addition to no discrimination against foreign investors, preferential tax status and exemption from profit tax, if profits are reinvested in export-oriented, are also offered to investors. [50] Other benefits for foreign investors include:

[49] Bureau of Economic and Business Affairs "2013 Investment Climate Statement - Turkmenistan," US Department of State, (February, 2013) http://www.state.gov/e/eb/rls/othr/ics/2013/204752.htm (accessed April 24, 2014)
[50] Ibid

- Repatriation of after-tax profits
- Exemption from customs duties, except on products of foreign origin
- Export of products
- Setting product prices

Uzbekistan

Policy and Promotion

Investment in Uzbekistan is governed by the Law on Foreign Investments, the Law on Guarantees and Measures on Protection of Foreign Investments, the Law on Guarantees of the Freedoms of Entrepreneurial Activity, the Production Sharing Agreements Laws, the Law on Investment Activities, and other legislations.[51]

The current tax system in Uzbekistan has been in place since 2008, though amendments were adopted in January 2013. Taxes are collected by the Uzbek State Tax Authority, and all companies are required to register with this agency. The tax system is complicated and requires businesses to pay several direct and indirect taxes. Some businesses however, particularly small and medium enterprises are eligible for a simplified tax regime.[52]

Types of Businesses

A new foreign business in Uzbekistan needs to register with the Ministry of Justice and Kakimyat.[53] The investment framework allows foreigners to establish business in Uzbekistan in several forms. These include limited-liability societies, joint-stock societies, partnerships, subsidiaries, representative offices, and branches of foreign enterprises.[54] A business is considered an "enterprise with foreign capital" if foreign investment is less than 30% and an "enterprise with foreign investment" if foreign capital is greater than 30%.[55]

Prohibited Sectors

The government of Uzbekistan limits foreign investment in several sectors. Foreign ownership is prohibited in the airlines, railways, and power generation sectors.[56] There is a 30 % and 49 % ceiling for investment in the media and tourism sectors, respectively. Banks can only operate as joint ventures with charter requirement being EUR 10 million for commercial banks and EUR 5 million for private banks.[57]

Though other sectors are not formally limited, the government exercises significant control through issuing licenses and regulating operation of businesses.

Labor

Foreign workers are required to have valid visas to be able to work in Uzbekistan and must register with the Ministry of Labor. For employers, labor costs are particularly high because payroll taxes are the highest in the region.[58] In order to hire foreign employees a company must first obtain a license from the agency on Foreign Labor Migration, which falls under the Ministry of Labor and Social Protection. Once the company has obtained the license, it can obtain work permits for each foreign employee. Quotas are placed on the number of foreign workers allowed to work in Uzbekistan

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[51] Bureau of Economic and Business Affairs "2013 Investment Climate Statement - Uzbekistan," *US Department of State,* (February, 2013) http://www.state.gov/e/eb/rls/othr/ics/2013/204758.htm (accessed April 12, 2014)
[52] "Guide to doing business and investing in Uzbekistan: 2013 Edition," PWC, (2013) http://www.pwc.com/uz/en/dbg_2013.pdf (accessed May 07, 2014), 32.
[53] Ibid
[54] Ibid
[55] Bureau of Economic and Business Affairs "2013 Investment Climate Statement - Uzbekistan," *US Department of State,* (February, 2013) http://www.state.gov/e/eb/rls/othr/ics/2013/204758.htm (accessed April 12, 2014)
[56]Ibid
[57] Ibid
[58] Ibid

Economic Zones

Free industrial and economic zone in Navoi region: The Navoi Free Industrial and Economic Zone (FIEZ) was created in 2008 by a presidential decree. The FIEZ is expected to be operational for thirty years, beginning in 2009, with a possibility of extension.[59] Navoi city is a multi-modal transport hub with an international airport and international highways and railway routes passing through. The FIEZ offers special customs, currency, and tax regimes to investors in the region. Other benefits include simple procedures for entering, staying and leaving, special rules for obtaining labor licenses for non-residents, and various tax exemptions and reductions. Tax exemptions include land tax, property tax, corporate income tax, infrastructure development tax, and other contributions to development funds. Investors are also exempt from custom payments, except for custom clearance fees, for imports of equipment, raw materials and spare parts in export-oriented investments for the duration of the FIEZ. Custom duty is levied at half the rate for enterprises manufacturing for the Uzbek domestic market; options for customs deferral up to 180 days are also available.[60]

Special Industrial Zone in Angren City: An SIZ in Angren City in Tashkent Province was established in 2012. This SIZ is expected to be operational for thirty years with a possibility of extension.[61] Benefits offered to investors include tax breaks and special customs regimes. Investors in this zone are exempt from corporate income tax, property tax, infrastructure development tax, unified tax payment, and contributions to the Road Fund. The duration of the exemption is based on the amount of investment. Large investments are also exempt from custom duties on the import of equipment, raw materials and spare parts that are not produced in Uzbekistan.[62]

Special Industrial Zone at Djizzak: A SIZ was established in Djizzak region in March 2013 for a period of thirty years, with a possibility of extension. Djizzak is located in Central Uzbekistan, southwest of Tashkent. Benefits offered to the investors are the same as in the Angren SIZ.

Pakistan

Policy and Promotion

Investments in Pakistan are governed by the Foreign Private Investment Act of 1976 and the Economic Reforms Act of 1992. The foreign investment regime is one of the most liberal in South Asia, yet investments are dwindling because of problems such as the energy crisis, political and economic instability, and a deteriorating security situation.

The law provides equal treatment to Pakistani and foreign investors, and there is no equity limit imposed on foreign investors in most sectors. Additionally, there are no transfer-of-technology requirements and proprietary information of businesses is protected.[63] Investors also enjoy the right of remittance of capital, profits, and dividends. Export-oriented industries and agro business can import raw materials without any duty payments.[64]

Types of Businesses

Foreign companies can establish a liaison office, branch office, subsidiary or a joint venture in Pakistan.

[59] Bureau of Economic and Business Affairs "2013 Investment Climate Statement - Uzbekistan," *US Department of State,* (February, 2013) http://www.state.gov/e/eb/rls/othr/ics/2013/204758.htm (accessed April 12, 2014)
[60] Ibid
[61] Ibid
[62] "Guide to doing business and investing in Uzbekistan: 2013 Edition," PWC, (2013) http://www.pwc.com/uz/en/dbg_2013.pdf (accessed May 07, 2014), 12
[63] Board of Investment, "Investment Policy 2013 – Pakistan," http://www.pakboi.gov.pk/images/stories/Investment/INVESTMENTPOLICY.pdf (accessed May 7, 2014)
[64] Ibid

Securities and Exchange Commission of Pakistan (SECP), Federal Board of Revenue (FBR), Board of Investment (BOI), State Bank of Pakistan (SBP) and Competition Commission of Pakistan (CCP) are the main regulatory bodies affecting foreign investments in Pakistan. In addition, Pakistan Telecom Authority issues licenses to telecom businesses. New firms must register with SECP and SBP in addition to obtaining approvals, permits and licenses pertaining to their line of business.

The system of tax-collection is tedious and includes a patchwork of provincial and federal taxes. Dealing with the courts and the justice system is also problematic as these institutions are underequipped and working with a long backlog.

Foreign currency is freely available and traded, however, SBP controls exchange rates and issues approvals for money transfers totaling more than USD 10,000.[65]

Prohibited Sectors

Arms and ammunitions manufacturing, high explosives manufacturing, minting currency, and non-industrial alcohol manufacturing are sectors prohibited to foreign investment. In addition, limitations exist on purchase of land, though it can be leased for up to 50 years with the option of renewal. Defense and broadcasting are sensitive sectors and have special procedures and ceilings for investment. Only Pakistani citizens are allowed to own newspapers and foreign investment is limited to 25% for newspapers and 50% for television channels. Foreign participation in banks and insurance companies is limited to 50% and 49% respectively. Similarly, in agricultural businesses only 60% foreign ownership is allowed and only companies incorporated in Pakistan can establish corporate farming enterprises.[66]

Labor

With the passage of a constitutional amendment in 2010, labor legislation and its implementation has been devolved to the provinces, creating a lack of uniformity. There is a need to harmonize provincial labor laws and ensure conformity.

Economic Zones

Pakistan established the first Export Processing Zone (EPZ) in 1989 to encourage export-oriented industries. Other EPZs were planned in Risalpur, Gujranwala, Sialkot, Saindak, Gwadar, RekoDek and Duudar, of which only Risalpur, Saindak and Sialkot are operational. Businesses established in EPZs are exempted from many taxes and duties on imports of raw material; they can also benefit from “One Window” servicing for issuance of import and export documentation.[67]

[65] Bureau of Economic and Business Affairs “2013 Investment Climate Statement - Pakistan,” US Department of State, (February, 2013) http://www.state.gov/e/eb/rls/othr/ics/2013/204710.htm (accessed April 12, 2014)
[66] Board of Investment, “Investment Policy 2013 – Pakistan,” http://www.pakboi.gov.pk/images/stories/Investment/INVESTMENTPOLICY.pdf (accessed May 7, 2014)
[67] Bureau of Economic and Business Affairs “2013 Investment Climate Statement - Pakistan,” US Department of State, (February, 2013) http://www.state.gov/e/eb/rls/othr/ics/2013/204710.htm (accessed April 12, 2014)