United States Agency for International Development
Mission to Pakistan

Government of Pakistan's Economic Measures and its Impact on Investment Climate

National Management Consultants (Pvt) Ltd.

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Annexures

Annexure

Standing Regulatory Orders (SROs) on Concessions on Import of Machinery, Raw Materials and Sales Tax

No	SRO No	Dated	Exemptions
			<u>Concession on Import of Machinery and Equipment for various industries</u>
1	527(I)/75	2-5-75	Exemption from the whole of the custom duty and sales tax for plant and machinery and unfabricated steel structure imported by the PASMIC.
2	196(I)/76	23-2-76	Exemption from whole of custom duty and sales tax for the equipment imported for manufacture of sound recording media or for use in sound recording.
3	989(I)/76	4-10-76	Exemption from custom duty in excess of 3% as-val. for drilling equipment, specialize vehicle, chemicals etc. for oil drilling purposes imported by Pakistan Oil Fields Limited.
4	200(I)/81	14-3-81	Exemption from the whole of custom duty and sales tax for the plant and machinery imported for BMR but any, cutlery goods, onyx/marble and ginning industry.
5	286(I)/84	4-4-84	Exemption from whole of custom duty for plant and machinery imported for the manufacture of portland cement by projects approved by the government.
6	506(I)/84	14-6-84	Exemption from whole of custom duty and sales tax for the dairy machinery and equipment not manufactured locally and imported by dairy industry.
7	509(I)/84	14-6-84	Exemption from whole of custom duty and sales tax for the equipment imported for Bee Farming.
8	507(I)/85	23-5-85	Exemption from the whole of custom duty and sales tax for the plant and machinery imported for basic manufacture of compressors, thermostats, picture tube etc.
9	511(I)/86	29-5-86	Exemption form custom duty in excess of 75% for plant and machinery imported under NRI scheme.

No	SRO No	Dated	Exemptions
10	440(I)/87	4-6-87	Exemption from whole of custom duty and sales tax from Embryo transplant technology equipment and medicines or chemicals imported by a dairy farming or livestock.
11	456(I)88	26-6-88	Exemption from whole of custom duty for plant and machinery imported for textile garments and textile processing industries imported under BMR etc.
12	466(I)/88	26-6-88	Exemption from custom duty and sales tax on import of non-aerated beverage machinery.
13	637(I)/88	21-7-88	Exemption from whole of custom duty on plant and machinery imported under BMR etc. for local garments, sports goods, leather goods, and surgical goods industries.
14	311(I)/89	10-4-89	Exemption from custom duty on machinery, equipment and tools imported for the manufacture of jewellery.
15	515(I)/89	3-6-89	emption from whole of custom duty and sales tax for plant and machinery imported for setting up of Key industries.
16	525(I)/89	3-6-89	Exemption from whole of custom duty and sales tax for machinery and equipment imported by mining industry.
17	545(I)/89	3-6-89	Exemption from the whole of custom duty and sales tax for plant and machinery imported for the manufacture of pharmaceutical raw material.
18	959(I)/89	23-9-89	Exemption from custom duty and sales tax on plant machinery imported for the expansion of existing units manufacturing fertilizer.
19	570(I)/90	7-6-90	Exemption from whole of custom duty and sales tax for machinery and equipments imported for initial installation, balancing etc. for manufacturing of engineering goods.
20	SRO(I)/90	18-7-90	Exemption form custom duty and sales tax on plant and machinery imported for setting up down stream industries of the Pakistan Steel Mills.

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Standing Regulatory Orders (SROs) on Concessions on Import of Machinery, Raw Materials and Sales Tax

No	SRO No	Dated	Exemptions
			CONCESSIONS ON IMPORT OF RAW MATERIAL
1.	321(I)/75	14-3-75	Custom duty and sales tax on import of ships spares and stores meant for use in ships registered in Pakistan.
2.	704(I)/80	26-6-80	Custom duty and sales tax on import of raw materia for manufacture of artificial parts of human body.
3.	600(I)/83	11-6-83	Custom duty and sales tax on import of components and raw material for manufacture of capital goods and machinery.
4.	495(I)/84	14-6-84	Custom duty and sales tax on import of components for local manufacture of vehicles.
5.	36(I)/87	18-1-87	Custom duty and sales tax on raw materials and components for use un the building fittings, repairing or refitting of ships.
6.	444(I)/87	4-6-87	Custom duty as in excess of 5-1/4% ad.val and sales tax on import of components and raw material used in oil and gas exploration equipment.
7.	18(I)/88	26-6-88	Custom duty and sales tax on import of raw material and components of specialized vehicles for local manufacture of such specialized vehicles.
8.	463(I)/88	26-6-88	Repayment of custom duty, rebate of central excise duty and refund of sales tax.
9.	510(I)/89	26-6-88	Custom duty in import of raw materials for manufacture or formulation of pesticides.
10.	198(I)/89	4-3-89	Custom duty and sales tax on raw material imported for manufacture of textile industry.
11.	509(I)/89	3-6-89	Repayment of whole of custom duty on raw material imported for the local manufacture of printing ink.
12.	549(I)/89	3-6-89	Custom duty and sales tax on import of raw material for manufacture or formulation of pesticides for agriculture.

No	SRO No	Dated	Exemptions
13.	243(I)/90	6-3-90	Custom duty, sales tax, import surcharge and iqra surcharge on import of raw material and components for supply to WAPDA against international tender.
14.	515(I)/90	7-6-90	Custom duty and sales tax on import of raw materials and components for manufacture of electric components and equipments and system.
15.	555(I)/90	7-6-90	Custom duty, sales tax, import surcharge and iqra surcharge for release of raw material and components imported for use in the manufacture of the capital goods, machinery etc. supplies to the projects against international tenders.
16.	560(I)90	7-6-90	Custom duty and sales tax on raw materials and components imported by approved manufacturers of boilers and generators.
17.	682(I)/80	14-6-80	Custom duty and sales tax on import of aere-modelling equipments and its parts and accessories.
18.	546(I)/82	14-6-82	Repayment of whole of custom duty on import of raw materials used in manufacture of nylon ropes and twine supplied to the fisherman's cooperative society or to a department of fisheries.
19.	607(I)/83	11-6-83	Custom duty and sales tax on delivery of raw materials imported for the manufacture of agricultural implements.
20.	349(I)/85	15-4-85	Customs duty and sales tax on import of raw materials and packing materials used in the manufacture of pharmaceutical products.
21.	440(I)/87	4-6-87	Custom duty and sales tax on import of embryo transport technology equipment and medicines or chemicals imported by a Dairy Farming or Livestock.
22.	839(I)/87	24-10-87	Repayment of customs duty and sales tax on import of raw material and components for the manufacture of audio cassettes.
23.	457(I)/88	26-6-88	Custom duty and sales tax on import of raw material for syringe and infusion giving sets.

No	SRO No	Dated	Exemptions
.24.	502(I)/88	26-6-88	Custom duty and sales tax on import of parts and components for the manufacture of scientific and medical instruments.
25	1195(I)/88	27-12-88	Custom duty on import of specified raw material for the manufacture of tires and tubes for automotive vehicles.
26.	508(I)/89	3-6-89	Repayment of whole of custom duty for round steel billets imports by the manufactures of cold drawn seamless pipes and tubes.
27.	540(I)/89	3-6-89	Custom duty and sales tax goods imported by fishermen's cooperative society.
28.	1147(I)/89	27-11-89	Customs duty and sales tax on delivery of the raw materials imported for the manufacture of the drugs.
29	380(I)/90	25-4-90	Customs duty on import of raw material and components of audio cassettes imported by recognized Recording Industry.
30	520(I)/90	7-6-90	Customs duty and sales tax on import of raw materials imported for the manufacture of packing material to dairy or fruit juice industry.
31	558(I)/90	7-6-90	Customs duty and sales tax on import of taw materials and components imported by recognized manufacturers of textile machinery, parts and accessories.
32	587(I)/90	7-6-90	Customs duty and sales tax on import of raw materials imports for basic manufacture of the pharmaceutical active ingredients.
			<u>CONCESSIONS ON SALES TAX FOR IMPORTED GOODS AND FOR GOODS PRODUCED OR MANUFACTURED LOCALLY.</u>
1	500(I)/88	26-6-88	General exemption of sales tax on imported goods.
2			Conditional exemption of sales tax on imported goods.
3	501(I)/88	26-6-88	Grant of refund of sales tax paid on cigarettes export out of Pakistan.

No	SRO No	Dated	Exemptions
4	529(I)/88	26-06-88	Partial exemption of sales tax on goods produces or manufactured in certain areas.
5	837(10/88	06-10-88	Exemption of sales tax on locally manufactured cigarettes supplied to Pakistan Navy.
6	560(I)/89	03-06-89	Sales tax on goods produced for use in taxable goods manufactured within the same factory.
7	561(I)/89	03-06-89	Sales tax exemption on goods manufactures by a vendor from the materials supplied by manufacturer of taxable goods.
8	562(I)/89	03-06-89	Exemption of sales tax on the goods for export.
9	564(I)/89	03-06-89	Exemption of sales tax on goods produced or manufactured by a cottage industry.
10	640(I)/89	17-06-89	Exemption from sales tax on locally produced fabrics.
11	641(I)/89	17-06-89	Exemption of sales tax on locally manufactured furniture.
12	642(I)/89	17-06-89	Exemption of sales tax on locally manufactured cotton fabrics.
13	643(I)/89	17-06-89	Exemption of sales tax on manufactured man-made fabrics.
14	732(I)/89	10-07-89	Partial exemption of sales tax on ingots, bars, rods, etc.
15	1022(I)/89	09-10-89	Exemption of sales tax on locally manufactured chindies.
16	381(I)/90	25-04-90	Raw materials and components of audio cassettes imported by recognized recording industry.
17	597(I)/90	07-06-90	Exemption of sales tax payable on locally produced machinery and equipment as are supplied to project financed by International Tender.
18	598(I)/90	07-06-90	Exemption of sales tax on certain goods manufactured or produced in Pakistan subject to laid down conditions.

No	SRO No	Dated	Exemptions
19	599(I)/90	07-06-90	Exemption of sales tax on certain goods manufactured or produced in Pakistan.
20	600(I)/90	07-06-90	Exemption of sales tax payable on the articles produced or manufactured in Pakistan as per conditions laid down.
21	601(I)/90	07-06-90	Exemption from sales tax payable on certain locally manufactured goods for exclusive use of Pakistan telegraph and telephone department.
22	683(I)/90	27-06-90	Exemption of taxes on import of agricultural insecticides and pesticides.
23	SRO-(I)/90	31-07-90	Determination of sales price of certain items for the purpose of sales tax.

INCOME TAX INCENTIVES AND CONCESSIONS

TAX HOLIDAY PERIOD

BALOCHISTAN

a) Tax credit of 30 percent of the amount invested is admissible to a company in respect of the acquisition of share capital of a public company framed for carrying an industrial undertaking, approved by the Central Board of Revenue, anywhere in Balochistan.

b) The tax holiday for a period of 8 years, from the date of commencement of its commercial production is available to an industrial undertaking owned by a company registered under the Company Ordinance, 1984, having its registered office in Pakistan and set up between 1st day of July, 1988 and the 30th day of June, 1993 in the province of Balochistan (excluding Hub Chowki Area).

N.W.F.P

a) Tax holiday for five years from the date of commencement of commercial production is available to industrial undertakings, set up by a Pakistani company, approved by the Central Board of Revenue, in the North West Frontier or in the Islamabad Capital territory, engaged in the manufacture of electronic equipment or components thereof.

b) A tax holiday for a period of 5 years, from the date of commencement of commercial production is available to an industrial undertaking owned by a company registered under the Companies Ordinance, 1984 having its registered office in Pakistan and set up between 1st July, 1988 and the 30th day of June, 1993 in the North West Frontier Province.

c) Tax holiday for a period of ten years from the date of setting up of industry or commencement of commercial production whichever is later, is available to an industrial undertaking owned by a Pakistani Company and set up between the 1st day of January, 1987 and the 30th day of June, 1993 in Gadoon Amazai Industrial Estate.

PUNJAB

a) Tax holiday for five years from the date of commencement of commercial production is available to industrial undertakings producing defence oriented goods, set up between 1st July, 1985 and 30th june, 1991 in approved industrial states in the cantonments of Wah and Sanjwal or in vicinity thereof.

b) Tax holiday for a period of 8 years from the date of setting up of industry or commencement of commercial production whichever is later, is available to an industrial undertaking owned by a Pakistani company and set up between 1st day of July, 1988 and 30th day of June, 1993 in the divisions of Dera Ghazi Khan and Bahawalpur.

Income Tax Incentives & Concessions

TRIBAL AREAS, NORTHERN AREAS, AZAD KASHMIR

a) Tax credit of 30 percent of the amount invested is admissible to a company in respect of the acquisition of share capital of a public company formed for carrying on an industrial undertaking, approved by the Central Board of Revenue, anywhere in the Tribal Areas, Northern Areas or Azad Kashmir.

b) Tax holiday for a period of 8 years from the date of commencement of commercial production is available to an industrial undertaking owned by a company registered under the Companies Ordinance, 1984 having its registered office in Pakistan and set up between 1st day of July, 1988 and 30th day of June, 1993 in the Federally Administered Tribal Area, the Northern Areas and Azad kashmir.

SIND

a) Tax holiday for a period of 8 years from the date of setting up Industry or commencement if commercial production whichever is later is available to an industrial undertaking owned by a Pakistani company and set up between 1st day of July, 1988 and 30th day of June, 1993 in the division of Sukkur and Larkana.

b) Tax credit of 20 percent of the amount invested is admissible to a company in respect of the acquisition of share capital of a public company for carrying on industrial undertaking approved by CBR and set up in the districts of Jacobabad or Shikarpur.

c) Tax holiday for a period of 5 years to an Industrial undertaking set up between 1.7.1988 and 30.6.1993 in Nooriabad Industrial estate.

ALL PAKISTAN TAX HOLIDAY FOR INDUSTRIAL COMPANIES:

i) Tax holiday for five years from the date of setting up or commencement of commercial production, whichever Is later, is allowed to industrial undertaking set up companies between July 1, 1978 and June 30, 1991, for the manufacture of garments from cloth made in Pakistan.

ii) Tax holiday for five years from the date of setting up or commencement of commercial production, whichever is later, is allowed to industrial undertakings engaged in the manufacture of leather garments from leather manufactured in Pakistan set up by a Pakistani company between July 1, 1985 and June 30, 1991.

iii) Tax holiday for a period of five years from the date of commencement of commercial production is allowed to an industrial undertaking other than oil and mineral undertakings, which is owned and managed by a Pakistani company, fulfills the prescribed conditions and is approved by the Central Board of Revenue as a pioneer industrial undertaking.

iv) Tax holiday for five years from the date of setting up or commencement of commercial production whichever is later, is allowed to industrial undertaking set up by a company between 1st July 1986 and 30th June 1989 and engaged in the manufacture of such engineering goods as are specified by the Central Board of Revenue.

v) Tax holiday for 4 years from the date of commencement of commercial production is available to an approved key industrial undertaking owned and managed by a company formed exclusively for operating the said industrial undertaking and registered under the Companies Ordinance, 1984 having its registered office in Pakistan which is set up between 1st day of July, 1988 and the 30th day of June, 1993, anywhere in Pakistan and engaged in the manufacture of biotechnology goods, fibre optics, computers and software, electronics equipment, solar energy equipment and fertilizer.

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Income Tax Incentives & Concessions

TAX HOLIDAY FOR OTHER ENTERPRISES

i) Income from a poultry farm, a poultry processing plant, a cattle or sheep breeding farm, a dairy and a fish farm set up between 1st day of July, 1988 and 30th day of June, 1993 is exempt from income tax for five years from the date of its establishment.

ii) Income from renting out of agricultural machinery or from providing of pest control services is exempt for two years from the date of setting up if this date falls between July 1, 1976 and June 30, 1990.

PARTIAL EXEMPTION TO INDUSTRIAL COMPANIES

Income equal to 10% of capital employed is exempt for five years in the hands of a Pakistani company approved by the Central Board of Revenue and commencing production between July 1, 1975 and June 30, 1988, which fulfills the following conditions:-

a) It is an industrial undertaking engaged in the manufacture of goods, ship building and navigation, or the generation and supply etc. of electrical energy or hydraulic power.

b) It is set up in tax holiday areas or in industrial estate approved by Central Board of Revenue located anywhere in Pakistan except in Karachi and Hyderabad Talukas and Faisalabad and Lahore Tehsils.

TAX CREDIT FOR B.M.R AND EXTENSION:

Tax credit equal to 15% of the amount invested in purchase of plant and machinery for balancing, modernizing or replacement is allowable to a company in case of installation between July 1, 1976 and June 30, 1988 or between 1.7.1990 and 30.6.1993. The credit is available to industrial undertakings on the condition that they are engaged in the manufacture of goods, ship building or navigation or the generation or supply of electrical energy or hydraulic power, which employ atleast 10 or 20 workers depending on the energy used are not formed by splitting up of an existing business. The Central Board of Revenue may however grant approval cases where these conditions are not fulfilled.

Companies engaged exclusively in the business of exploration and extraction of coal deposits against a mining lease obtained on or after the first day of July, 1987 are also eligible for tax credit for B.M.R.

The BMR credit which was earlier restricted to investments made up to 30.6.1988 has now been made available to investments made on this score between 1.7.1990 and 30.6.1993.

Pakistani Companies acquiring plant and machinery on lease from a scheduled bank, a financial institution or a leasing company approved by the Central Board of Revenue are also eligible for tax credit at the rate of 15% of the amount expended by the leaser in the purchase of the said plant and machinery.

TAX CREDIT FOR INVESTMENT IN SHARE/DEBENTURES OF EQUITY PARTICIPATION FUND:

Tax credit of 50% of amount invested is available to Pakistani companies in respect of purchase of such shares or debentures issued by the Equity Participation Fund as have been approved by the Central Board of Revenue.

TAX CREDIT FOR INVESTMENT IN DEBENTURES OR NEGOTIABLE BONDS

Any person investing in the purchase of debentures or negotiable bonds issued by the Government or corporations and approved by the Central Board of Revenue, is entitled to a tax credit of 5% of the nominal value of the debentures or bonds,during the period the investment is retained. Subsequent purchasers are also entitled to the credit. The credit is available for a total period of fifteen years from the date of issue of the debentures or bonds.

Income Tax Incentives & Concessions

ACCELERATED DEPRECIATION

i) For machinery on which the general rate of depreciation applies, extra depreciation equal to fifty percent for double shift and one hundred percent from triple shift working is allowed proportionately according to the member of days of such multiple shift.

ii) For buildings erected or machinery installed between July 1, 1976 and June 30, 1991, accelerated depreciation is allowed in the year of erection or installation of such assets or the year in which commercial production beings, whichever is the later, as below:-

a)	On residential buildings for industrial labor constructed between July 1, 1979 and June 30, 1991.	25%
b)	On other buildings, including buildings given on lease on or after the 1st day of July, 1986 by an assessee being scheduled bank, a financial institution or a leasing company approved by the Central Board of Revenue, provided the building is used by the lease for purpose of his business or profession.	10%
c)	On machinery and plant not previously used in Pakistan (other than ships or motor vehicles not playing for hire).	25%
d)	On ships registered in Pakistan.	30%
e)	On building and library books owned or used by an educational institution.	25%

iii) Profit or loss on disposal by an approved bank, financial institution or a leasing company of pant, machinery and building given by it on lease, is allowed to be set off against current income on an asset-to-asset basis.

iv) Exchange rate fluctuation are adjustable against the written down value.

v) In the case of assets used in contracts for petroleum exploration from 1.7.1981, only initial depreciation is taxed on re-export of the assets.

Income Tax Incentives & Concessions

EXEMPTION FROM CUSTOM DUTY SCHEDULE AND SALES TAX ON PLANTS AND MACHINERY.

INDIRECT TAXES

CUSTOM DUTIES

Goods imported into and exported out of Pakistan are subjected to various rates of Customs Duties either ad valorem or specific, as prescribed in the pakistan Customs Tariff. As an instrument of fiscal policy, these tariff rates are used with advantage to keep economic activity in the desired direction. These are also used effectively as counter veiling duty for providing protection to indigenous industry in respect of items manufactured endogenously and subject to domestic taxes. Customs duties in the form of import duties and export duties constitute about 46.5 percentage of the local receipts. During 1989-90 import duties accounted for about 41.6 percent and export duties only 4.9% of the total of tax receipts.

The rate structure of Customs duties is determined by a large number of socio-economic factor. But the general envisage higher rates on the luxury items and less essential goods. Import of machinery, industrial and pharmaceutical raw materials, hospital equipments, scientific apparatus, agricultural machinery, solar cell modules, plant and machinery, mining industry, bee-farming, wood seasoning, dairy machines and insecticide, enjoy either total exemption or subject to a nominal rate of duty. In view of overall imperatives of national economy, the import tariff has progressively been an industrial bias. Import of machinery has been provided an area-wise and industry-wise concession to enable the less developed areas to catch up with the developed area.

Concessions of customs duty and sales tax on the raw material and components meant for the manufacture of the specified electronics goods are available to all the areas of Pakistan. The scope of key industries scheme has been restricted to five industries, namely biotechnology, fibre optics, solar energy, fertilizer and electronic industry. The divisions of Bhawalnagar, D.G.Khan, Larkana and Sukkur are included in the list of other areas eligible for zero duty concession. Mining equipments which have no alternate and are not manufactured locally are also exempted from customs duty. Exemption from customs duty id available in vitamins and pro vitamins imported for the manufacturing of poultry feed. Concessionary rates of duty have been levied on certain raw materials and components of seamless pipes manufacturing industry and aluminum industry, printing ink Industry, audio cassettes manufacturing industry, paint industry and ballpoint pens manufacturing industry etc. Blood bank refrigerators, sterilizers ad operation tables are also exempted from custom duty. Raw materials imported for packaging material of dairy and fruit juices products have been exempted form custom duty.

CENTRAL EXCISE

Central excise duties are leviable on goods produced and manufactured and on services provided or rendered in Pakistan as set forth in the First Schedule to the Central Excise and Salt Act, 1944. With the industrial development of the country, the scope of central excise duties has expanded yo include a large number of commodities. The country started with 15 items in the year after Independence, and today as many as 74 goods and 13 services constitute the Central Excise Tariff. Out of 74 goods, 35 items are, however, totally exempt from duty; and for the rest, the duty is charged on 19 goods at specific rates, on 15 goods at ad valorem rates and 6 goods at the rates linked to their retail price. The services provided by hotels and restaurants, domestic travel and advertisements on TV and radio, carriage of goods by air, customs agents, courier services, goods insurance and telex are liable to central excise duty. The following 9 commodities contributed about 83.68 % of the total excise revenue during 1989-90 indicated in the table on the following pages:

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Income Tax Incentives & Concessions

S.NO	NAME OF ITEM	Percentage
1.	Tobacco,including cigarettes	37.18
2.	Cement	11.19
3.	Sugar	16.77
4.	POL Group	07.98
5.	Natural Gas	05.05
6.	Beverage	03.26
7.	Cotton Yarn	04.27
8.	Soap and Detergents	02.16
9.	Paints and Varnishes	00.76
	Total	88.68

PRESENT POSITION

Sales Tax is at present levied as a single stage tax at the rate of 12.5% on:-

a) all goods imported into Pakistan, payable by the importers; and

b) all goods manufactured or produced in Pakistan, payable by the manufacturer or the producer. However, where the CBR so directs, it can be collected from the wholesaler or retailer.

EXEMPTIONS

Unlike central excise duty which is leviable only on the items mentioned in the Central Excise Tariff, sales tax is leviable on all the items imported or manufactured except those on which sales tax is exempted by the Federal Government. Exercising the powers given in the Sales Tax Act, 1951, the Federal Government grants exemption of sales tax for different reasons such as the following:-

i) In the case of imported goods, sales tax is exempted with a view to keeping under control the prices of certain goods such as medicines, or to promote development of certain type of industry or a certain area.

ii) In the case of locally manufactured goods, exemptions are granted on:-

a) essential commodities such as medicines and food;

b) goods meant essentially for the poor people such as utensils of aluminum and steel;

c) items on which the local industry is at a disadvantage against the imported or smuggled goods;

d) items on which some taxation anodally is sought to be or

e) items which are desired to be kept tax free as a fiscal tool to give a certain direction to the economy for instance boosting agriculture or developing any backward area.

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Income Tax Incentives & Concessions

TYPES OF EXEMPTION:

Depending on the purpose and requirements of administration of exemption, the following different types of exemptions are granted:-

i) **Un-Conditional exemption**
About 150 items have been given un-conditional exemption in SRO 599 (I)/90, dated 7-6-1990.

ii) **Conditional exemption**
Certain items have been granted exemption subject to different conditions. For instance footwear are exempted under SRO 598 (I)/90 only if the retail price thereof does not exceed Rs. 250/- per pair. Similarly, machinery and equipments are exempt from sales tax under SRO 597 (I)/90 if supplied against an International tender. Machinery and component parts of machinery are exempt from sales tax,, if they fulfil the conditions given in SRO 600 (I)/90. Certain goods are exempt from sales tax under SRO 601 (I)/90, only if produced for the exclusive use of the Pakistan T & T department.

iii) **Area-wise exemption**
Goods produced by the factories set up between 1.7.1988 to 30.6. 1991 in the province of Balochistan (excluding Hub), NWFP, Azad Kashmir, FATA and Northern Areas are exempt from sales tax under SRO 529 (I)/88, dated 26.6.1988.

iv) **Partial exemption.**
Partial exemption of sales tax has been given on certain items such as processed fabrics and furniture under SRO 640 (I)/89 and SRO 641/89, both dated 17.6.1989.

v) **Cottage Industry Exemption**
Any goods except, those listed below, produced by small industrial units fulfil the conditions prescribed in SRO 564(I)/89, dated 3.6.1989 are exempt from sales tax.

TAXATION MEASURES

TAXATION MEASURES IN 1990-91 BUDGET
DIRECT TAXES

Income Tax

1. Self Assessment Scheme has been re-introduced with effect from the assessment year 1990-91. It extends to existing non-company cases with income below Rs. 200,000.

2. Cash loans exceeding Rs. 100.000 claimed to have been received otherwise than by a crossed cheque are to be treated as deemed income of the assessee. This provision will be applicable for cash loans received on or after July 1, 1990.

3. Expenditure incurbed by an assessee on legal services acquired to defend title of the property or any suit connected otherwise in a court of law has been made deductible against income from house property alongwith other allowances and deductions.

4. The provision of salaries to directors of a domestic private company has been restricted to 30 percent of its total income before the charge of such expenditure. In case of each director, however, maximum deduction on this account shall not exceed Rs. 240,000 per annum or Rs. 20,000. per month.

5. Provision has been made that any expenditure of Profit and Loss Account incurred by an assessee at any time in a sum exceeding Rs. 50,000 will not be allowed as deductible unless the payment is made through crossed cheque or crossed bank draft. This provision will be applicable in respect of payments made on or afte. July 1,1990.

6. Exemption limit of dividends for the purpose of deduction of tax at source has been reduced from Rs. 15,000 to Rs. 10,000. The rate of withholding tax, however, remains unchanged at 7.5%.

7. Exemption limit in respect of income from a scheduled bank relating to a profit and loss saving account or deposit has been reduced from Rs. 15,000 to 10,000.

Income Tax Incentives & Concessions

8. The limit of profit on Interest on an account or deposit maintained with any banking company for the purpose of deduction of advanced tax has been reduced from Rs. 100,0000 to 50,000. the withholding tax rate has also been enhanced from 5% to 7.5% in respect of payment to be made in after July 1, 1990.

9. Exemption to casual and non-recurring receipts has been restricted to Rs. 24,999. The moment such receipts exceed the aforesaid limit to Rs. 24,999, the entire receipts shall become taxable. This provision will, however, not apply to casual capital gains on immovable property or receipts by way of Inheritance and gift.

10. Prizes won on prize bounds and winnings from a raffle, lottery or a cross-word puzzle amounting to Rs. 25,000 or more have been made taxable. Such receipts whether in cash a kind will be treated as a separate block of Income and subjected to final withholding tax at the rate of 7.5%.

11. BMR tax credit 15% of the amount invested in the purchase of plant and machinery for the purpose of replacement, balancing and modernization was restricted to such investments made upto 30th June, 1998. Law has been amended to extend the BMR tax credit concession to every Pakistani company which makes investment for this purpose between 1st July, 1990 and 30th June, 1993.

12. It has been provided that penalty proceedings for various defaults under the Income Tax ordinance, 1979, shall be completed within two years from the end of the financial year in which the notice for hearing was served. The limitation shall, however, apply in respect of cases in which the notice of hearing is given or after July 1, 1990.

13. The rate of super tax for private companies has been from 15% to 20% in respect of any assessment year commencing on or after 1st July, 1990.

14. Limit of income for payment of 10% surcharge has been reduced from 200,000 to Rs. 100,000 in the case of non-salaried persons with effect from the assessment year 1990-91.

15. A surcharge of Rs. 300 has been levied in the case of non-salaried persons whose income does not exceed Rs. 100,000 and who opt for Self Assessment Scheme for assessment year 1990-91.

16. Export rebate where allowed to a firm or an association of persons will not be allowed to partner of the firm or member of the association on his share income from such firm or association.

7. Exemption to income of Provincial Seed Corporation has been withdrawn with effect from assessment year 1991-92.

8. Exemption to profits and gains of Pakistani company engaged in the business of rendering agro-services has been withdrawn with effect from assessment year 1991-92.

19. Exemption to income derived by as assessee from the business of renting out agriculture machinery has been withdrawn for the business setup after 30 June, 1990.

2). The scope of exemption available to cooperative societies has been restricted to that portion of income of a cooperative society which arises to it as a result of its dealing with its members involving sale of goods for the personal of use of such members.

2 . Provision has been made to allow initial depreciation 25% on school buildings and library books and 25% normal depreciation per annum on laboratory equipment owned and used by educational institutions.

2 . The ceiling on valuation for purposes of depreciation allowance on motor vehicles, not plying for hire, has been raised from Rs. 175,000 to Rs. 250,000.

Income Tax Incentives & Concessions

INDIRECT TAXES

SALES TAX

Sales tax is leviable on all goods produced or manufactured in Pakistan or imported into the country unless they are specially exempted. At the manufacturing stage, sales tax is collected by the central excise staff under the mode of central excise duties collection. It is mostly collected under the self-clearance procedure except in respect of the following items where the tax is collected under the supervised clearance system:-

1. Cigarettes.
2. Beverages.
3. Perfumery and cosmetics.
4. Wires and cables.
5. Paper and paper board.
6. Metal containers.
7. Beverage concentrate.

The collection of sales tax at the import stage is entrusted to the customs staff who collect the tax alongwith other federal taxes before the clearance of the goods.

The standard rate of sales tax 12.5% ad valorem id levied on all the taxable items.

General exemption from sales tax on the locally manufactured goods has been given vide S.R.O. 566(I)/89, dated 3rd June, 1989. The exemption has been withdrawn from the following 42 items during budget 1989-90:-

1. Cheese
2. Fruit and vegetable preserved, canned or processed.
3. Animal oil and fats.
4. Vegetable oils other than edible or processed.
5. Marble sl[illegible].
6. Marble chips.
7. Benzol, Tolule and xylole.
8. Petroleum bitumen, petroleum coke and other residues of petroleum oils.
9. Color lakes.
10. Synthetic organic dyestuffs.
11. Alketra
12. Other coloring matter
13. Prepared pigments, prepared opcifiers and prepared colors; vitrifiable enamels nd glazes, liquid products of the kind used in the ceramic, enamelling and glass Industries.
14. Varnishes and lacquers, distemper, prepared water pigments, paints and enamels.
15. Prepared driers
16. Glaziers putty, grafting putty, painters fillings, non-refractory surfacing preparations.
17. Polishes and creams.
18. Glue
19. Rosin
20. Turpentine
21. Glue and synthetic resins all sorts.
22. Wood in rough shape viz. pulp wood, saw logs and veneer logs etc.
23. Hardboard
24. Clipboard
25. Paper sacks
26. Cotton, man made and blended fabrics (Processed).
27. Woolen yarn
28. Waterproof canvas.
29. Tents and tarpaulins.
30. Grinding wheels
31. Concrete components
32. Table ware and other articles used for domestic or toilet purpose of porcelain china and other kind of pottery.
33. Iron and steel products.
34. Steel wire of the following description;
    Nail wire of less than 22 SWG.
    Galvanized steel wire of less than 22 SWG.
    Bright wire of less than 22 SWG of making screws.
    High carbon high tensile wire i.e. spring wire, bicycle spoke wire of 2.03 to 2.62 mm diameter, galvanized high tensile steel core for telephone cable, railway wire of 71.4mm umbrella rib wire.
35. Metal products of rolling and re-rolling ,ills.
36. Sanitary fittings
37. Brass water fittings
38. Type writers
39. Ball and roller bearing of two inch bore (internal diameter).
40. Ball and roller bearing complete with pedestal or housing specially designed for the use exclusively with power driven machinery.
41. Ballast chokes.
42. Electric accumulators and parts thereof.

Income Tax Incentives & Concessions

The rate of Rs. 3000 per ton on newsprint has been reduced to Rs. 1500 per ton.

Customs duty in active dried yeast, which is an essential for food industry, has been reduced form 100% to 60%.

Plastic, paper and wooden bobbins have been subjected to 60% duty.

The distinction between the industrial and commercial imports of palm oil has been eliminated.

Statutory rate of duty on railway or tramway locomotive equipment has been brought down to 20% m lime with the rate of duty applicable to rolling stock of Railways through exemption notifications.

Duty on raw materials imported for manufacturing bicycles components has been reduced from 50% to 20% in line with the duty structure on auto-parts and the facility of repayment of Rs. 110 per bicycle has been withdrawn.

Sterilizing granules used for sterilizing baby milk bottles have been exempted from customs duty.

United States Agency for International Development
Mission to Pakistan

Government of Pakistan's Economic Measures and its Impact on Investment Climate

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CONTENTS

1.0 EXECUTIVE SUMMARY

The reforms introduced by the government under the premiership of Nawaz Sharif, a successful businessman himself have brought in their wake better prospects of economic and social set up of the society. The present government has thoroughly scrutinised the industrial sector. No less then six committees have examined the salient features of economic policy; their recommendations will overhaul the infrastructure of the industrial sector. The fundamental aspects are privatization and deregulation, new and better export, tax, and industrial policies and reformed exchange and payment system. 235 bids offered for state controlled units mirror the enthusiasm of the private entrepreneurs.

Measures to reduce the burden on the national exchequer and to encourage foreign investments have also been on the fore front of the government's agenda. Major long pending issues (water apportionment etc.) have been solved and others are on the anvil.

To bring in foreign expertise and capital, a conference was held in Islamabad; attended by businessmen from all over the world. Some revolutionary steps have also been taken and certain restrictions have been abated to attract foreign investment.

Trading activities have been enhanced by removing all sorts of embargoes. The roll of Controller of Imports and Exports (CCI&E) has become extraneous as far as acquiring an import license is concerned. By dismantling exchange controls, removal of few restrictions on forex operations with time and building up of reserves through existing mechanisms of transferring funds, the long awaited dream of convertiblity of the rupee will be realized.

The added role of the Ministry of Industry, by keeping the different enterprises updated through publishing rules related to foreign investments, has also facilitated the investment process.

By providing certain incentives in the policies involving fiscal and monetary values and trade, the government has brought a fundamental change in the industrial sector. The incentives like tax holiday, exemption from custom duty, surcharge and sales tax on plants and machinery and reduction in the duty of import of raw materials have created an atmosphere for entrepreneurs to set up new units.

The setting up of export processing zones in the country and providing fiscal incentives is another step towards stabilization of the economy. The activity on the Karachi stock exchange is in full swing as almost daily new firms are listed showing great increase in capitalization.

Apart from introducing reforms in the business sector the government has not overlooked the social side of the picture and has already taken strict measures by introducing and implementing new constitutional reforms to facilitate the life of the common man.

One of the main objectives is the running of the government according to the Islamic injunctions in the form of SHARIAT BILL. The prevalent chaos in the society is being harnessed by the persistent reformatory efforts of the Prime Minister. The day is not far when every citizen will be enjoying a better standard of living without fear of hunger, poverty and other elements pervading the present social set up.

2.0 MEASURES TO ENCOURAGE FOREIGN INVESTMENT

2.1 Introduction

Being a successful businessman and a staunch muslim Mr. Nawaz Sharif, the present Prime Minister, has chosen the amelioration of his country as his main objective. With his adherence to the Islamic injunctions, he has in his party's manifesto promised to rid the country of the evils prevalent in the society which are impeding the country's progress. Implementation of Islamic laws in all sectors of society specifically, a pleasant and forceful change in the business sector by introducing certain reform measures has been the driving force of Mr. Nawaz Sharif's government.

Accelerating pace of the industrial sector; development is of the utmost importance in the prevailing circumstances, nationally and internationally. A transformation is taking place in the country's economy as it moves from state controlled to a new deregulated enterprise culture. The present government has envisaged socio-economic reforms through six committees appointed by the Prime Minister himself. These committees were appointed to explore and formulate an economic policy to facilitate matters for foreign and local investment. The vital aspects of economic policy which were examined are;

1. Privatization and Deregulation
2. Export Policy
3. Tax Policy
4. Self Reliance
5. Industrial Policy
6. Exchange and Payment system.

With the reforms being implemented at an unprecedented pace, a dawn of new era for the country can be clearly visualized.

2.2 Improving Economy through Industrialization Process

The privatization policies were supposed to be put into action as early as 1983 but due to certain elements in the previous government they could not be realized. However with the present government's more solid structure both politically & socially these are materializing in different reformatory measures in all departments of the country's socio-economic set-up.

Major steps have been taken by the Nawaz Sharif government to put the economy back on the growth track by adopting privatization & denationalization resuscitatory measures. These measures taken by the government are relieving the bureaucrats of running industry, commerce and hotels. As the Prime Minister remarked " The job of the government is to formulate policies not to run industry, commerce and hotels".

To promote the privatization programs the government has put one hundred and fifteen of the country's industrial units for sale to the private sector. The enthusiasm of the entrepreneurs can be analyzed from the fact that for one hundred and one state controlled units two hundred and thirty five bids were offered.

No	Classification	No of Units	Bids Made
1	Cement	15	55
2	Chemical	12	38
3	Ghee	22	47
4	Roti	17	29
5	Engineering	9	17
6	Fertilizer	5	9
7	Automobile	7	22
8	Rice Mills	8	12
9	Miscellaneous	6	11
	Total	101	235

The government has also invited bids for the transfer of management of nationalized commercial banks namely, United Bank Limited, Habib Bank Limited, and two DFI's, which are Industrial Development Bank of Pakistan (IDBP) and National Development Finance Corporation (NDFC).

The government's intention to privatize WAPDA, the largest power generator and distributor of the country which also holds monopoly over every part of the energy sector, shows its sincerity in the privatization field and dedication of the Prime Minister in revitalizing the economy of the country.

2.3 Cost Effective Measures

To reduce the burden on the national exchequer, a ban has been imposed on fresh employment for an indefinite period in the public sector and government organizations. The budget for supplying fringe benefits to the officials has been drastically reduced. A review of all the ministries has been taken and the surpluses taken note of, to be utilized elsewhere. The utilization of some of the ministries is being questioned and an economy drive is in force. All these measures will effectively contribute in cutting government spending.

2.4 Decisions on Major Long Pending National Issues

Pakistan being a federation has most of its powers and rights vested in the central government. Being a centralized government the provinces or the federal units allied with it do not enjoy much autonomy and thus are dependent for the decisions of major issues such as fiscal and monetary (which contain the allocation of government revenues to different projects and departments) etc. on the center. The present government with its reformatory steps in the industrial sector has also brought about some constitutional reforms. The major issues solved are;

1. The apportionment of water which was a major long pending issue has after debate been decided and settled by the present government. The provinces have now been allocated zones and sub-zones for the use of water through out the year thus minimizing chances of dispute on the respective rights of the users.

2. The revenues from the respective provinces was another major issue which has been solved. Now the revenue from all the government departments in every province is at the disposal of the provincial chief. With this the provinces have become more autonomous with a few exceptions in certain issues like formulating war strategy, foreign policy etc.. Thus the governors and district officers now enjoy wide latitude in provincial and local mattes.

Some other issues under consideration are;

a. Another step towards democracy is the right of any citizen to subject government action to judicial review.

b. Another metamorphosis taking place is in the shape of more rights and opportunities for women and their enhanced participation in the development of the country.

c. The issue demanding the most attention is unemployment. The government is taking certain measures to solve the problem.

    o Training programs for the unemployed and unemployable educated youth.

    o Development of small and medium towns and strengthening their link with the rural and urban areas for the creation of jobs.

Similarly, other issues are also being solved keeping in view the welfare of the common citizen.

3.0 MEASURES TO ENCOURAGE INVESTMENTS

To attract foreign investment different government's since the 60's have been trying with different levels of success, to offer deals to investors with lucrative prospects (eg, protection against nationalization etc.) and since then gradual relaxation in the laws covering industrial deals have also been guaranteed.

3.1 Foreign Investment in Industrial Ventures

The present government is doing its utmost to bring in foreign investment and to enhance its foreign exchange resources by using certain facilitatory measures.

a. Foreign investors are permitted to own 100% of equity in local companies. For issuing shares to a foreign investor no prior government approval is required. In exchange for foreign exchange, foreign investors are allowed to enter industrial undertakings through stock exchanges at market price. The company on submitting a prescribed return to the State Bank can issue and export shares to the non resident investors. The foreigner can without approval of the government transfer his shares to another foreigner.

b. Dividend income can now also be remitted by authorized dealers to the bonafide investors without State Bank of Pakistan permission.

c. Similarly disinvestment proceeds can also be remitted after payment of capital gain tax, without State Bank approval.

Such steps have attracted foreign investors and non-resident Pakistanis to invest in the country's different ventures.

With the removal of such factors which were a hindrance to bringing foreign investments, the country's economic atmosphere is becoming more lucrative and showing positive results. The graphical results show in the form of increased share prices on the country's stock exchanges.

Some facts and figures on foreign investments are;

Rs.	3 billion in 70's
Rs.	8 billion in 80's
Rs.	40 billion in 90's

The further breakup of the Rs. 40 billion is as follows; 40% of investment was made by totally foreign registered firms and 60% was made by joint stock companies. Also 43% of investments were in the manufacturing sector, 40% in commercial activities, 7.5% in mining and quarrying and 9.5% in other activities.

The main **investments came from USA with 60%** of the investments, about 12% from UK, 5% from France and 5% from Korea.

3.2 The Remittance of Profits by Foreign Firms

The branches of foreign firms no longer require State Bank approval for remitting their profits, however, excluded from such liberalized reforms are the banks, insurance companies, foreign airlines and foreign shipping companies which have to adhere to a specific regulatory government process.

To further promote foreign investment a conference (18th to 20th November) took place on the behest of the Prime Minister. Industrialists and investors from all over the world took part in the conference to seek new vistas of investment in a newly charged business atmosphere. The conference offered to the investors a first hand knowledge on the opportunities in areas open for investment. It also created business liaisons between foreign and local industrialists. Among the sectors expected to attract the most attention from International investors are;

1. Transport and infra-structure
2. Hydrocarbons
3. Fertilizer
4. Automobiles and
5. Telecommunication

3.3 Local Currency Credit Facility for Foreign Investor

Foreign controlled manufacturing firms are allowed loans in the local currency from different financial institutions without prior approval of the State Bank whereas this was not the case before the present government introduced conditions for business transactions.This has simplified matters and businesses can now save time and also the trouble of getting involved with all the tediousness of "Red Tape."

3.4 Facility of Credit for Working Capital

Foreign controlled firms can obtain a loan equal to their ownership rights without prior permission of the State Bank of Pakistan whereas this was not the case before the reforms.

With the new horizons being explored in Pakistan, many business activities have been enhanced. Industrial undertakings can now obtain foreign currency loans without any restrictive measures as to their repayment.

3.5 Permission for Trading Activities

Export trade for foreign trading companies has been enhanced by removing numerous restrictions. Similarly a new trade policy has been announced in the same spirit. A few facts and figures related to the trade are given;

Exports have increased

1990 4992 million US$
1991 5800 million US$

Imports have also increased showing an overall affluence among the business and consumer sector;

1990	7256 million US$	(145 % of Export)
1991	8000 million US$	(137 % of Export)

This shows an increase of 16% in exports and an increase of 10 % in imports.

MAJOR IMPORTS
1989-90
GRAND TOTAL: Rs. 89778.2 million

1.	Petroleum and products	21,763.2
2.	Machinery (non-electrical)	13,437.5
3.	Transport equipments	7,815.8
4.	Vegetable oil	6,954.3
5.	Chemicals	5,603.5
6.	Iron, Steel and Products	3,938.2
7.	Tea	3,506.7
8.	Grains pulses	2,909.8
9.	Electrical goods	2,476.8
10	Drugs and medicines	1,973.6
11	Chemical fertilizers	1,789.9
12	Art-silk Yarn	1,588.8
13	Paper, board and stationery	1,558.3
14	Non-ferrous metals	934.0
15	Dyes and colors	682.2
16	Others	12,845.3

MAJOR EXPORTS
1989-90

GRAND TOTAL: Rs. 106,469 million

1	Readymade garments and hosiery	18,531.8
2	Cotton yarn	17,916.7
3	Cotton cloth	11,999.7
4	Raw cotton	9,550.0
5	Leather	6,002.4
6	Rice	5,143.9
7	Carpets and rugs	4,923.5
8	Synthetic textiles	4,555.9
9	Cotton towels	2,783.9
10	Sports goods	2,311.2
11	Fish and fish preparations	1,023.6
12	Surgical instruments	1,502.1
13	Vegetables and fruits	1,351.9
14	Molasses	1,046.5
15	Guar and products	895.6
16	Cotton waste	597.4
17	Drugs and chemicals	540.0
18	Footwear	503.6
19	Raw wool	367.4
20	Animal casing	260.2
21	Petroleum	234.5
22	Tobacco raw and manufactured	212.5
23	Cotton thread	62.7
24	Paints	5.7
25	Others	13,146.6

Source: Pakistan Statistical Yearbook 1990.

3.6 Export Review

Exports during the 3rd quarter of 1991 (July-Sept) totalled Rs. 34.872 billion as compared to Rs. 25.544 billion during the same quarter last year, showing an increase of 36.3% .Imports during the same period totalled Rs. 52.840 billion compared to Rs. 35.2268 billion of last year, indicating an increase of 49.8%. Imports increased by 13.5% as compared with export figures of the same period.

These exports comprised mostly of towels, cotton fabrics, cotton yarn, garments, textile fabrics etc.. Similarly major imports were machinery, transport equipment, chemicals, petroleum products, palm and soybean oil and motor vehicles. It is projected that as soon the new economic reforms are fully implemented, Pakistan will become a haven for industrial and commercial entrepreneurs.

4.0 FOREIGN EXCHANGE CONTROL REFORMS

Foreign exchange controls have been relaxed further due to reform measures taken by the government. this is a result of the phased program agreed upon by the government with IMF and World Bank to open up the economy of the country.

4.1 Foreign Currency Accounts

Freedom to operate foreign currency accounts for Pakistani's residing at home has been accorded and any amount of currency can be withdrawn. The rate of return has been increased and the State Bank, without the prior approval of the government, can fix the rate. FEBC (Foreign exchange bearer certificates) proceeds and foreign currency notes can be directly put into the concerned account without any declaration to the custom authorities. The freedom to operate foreign currency accounts will bring in more foreign currency which was previously stashed away in foreign banks by resident Pakistanis.

There are exceptions to the above rule which cannot utilize the above facilitator rules for foreign currency accounts.

4.2 Foreign Currency Investment Bonds

Persons with foreign currency accounts previously were not allowed to obtain local (Rupees) currency loans but now can easily obtain Rupee loans against their foreign currency accounts. Along with the FEBC's which were issued in 1986 government has recently issued one year dollar denominated 'Bearer Bonds'. The rate of return on these bonds is a quarter of one percent. These bonds can be purchased by any person whether residing in Pakistan or abroad against payment in foreign exchange.

Similarly profits on the bearer bonds will be payable in foreign exchange with no questions asked on the source of foreign exchange. The government will utilize the proceeds from these bonds to meet its foreign currency reserve needs.

4.3 Foreign Exchange Facility for Travelers

There is no restriction on the amount of foreign exchange being taken out or brought into the country by travellers whereas earlier the outgoing passengers were obligated to declare the amount.

Personal excess baggage can be dealt with by paying for freight in rupees to foreign airlines without any limit. The facility in its wake will bring more tourist trade for the country.

4.4 Foreign Exchange Facility for Exporters

Remittances on all export claims excepts those relating to quality claims and non-shipment can be worked through authorized dealers without the State Bank's prior approval.

The exporters as well as non-exporters can publicize products abroad. This measure will in its wake bring about a broader market for the local market.

4.5 Foreign Exchange Facility for Fees and Education

Limits on payment for membership fees in clubs, professional associations have been lifted.

The restriction on foreign courses which was only for certain courses has been lifted and now an exchange facility is given for all correspondence courses. The upper limit on the amount of fees for appearing in examinations held in Pakistan by foreign institutions has been abolished & remittance of fees can be done through authorized dealers without State Bank intervention in the process.

Foreign Exchange prior to such revolutionary business steps was allowed or restricted to a few institutions abroad but now that restriction has been lifted with students in any institution abroad being able to take foreign exchange from authorized dealers. Opening education horizons to the Pakistani student will be the out come of such steps.

4.6 Foreign Exchange Companies

Encouragement for exchange companies to set up their operations to avoid unnecessary delays in remittances has been on the forefront of the present government's agenda. This will provide easy availability of foreign exchange and encouragement to entrepreneurs to set up new industries.

5.0 FINANCIAL MARKETS

To increase the government treasury new schemes have been introduced to bring in additional funds. Steps have been taken to expand the financial markets of the country.

5.1 Financial Bonds

The required funds for building and maintaining infrastructure, necessary for industrial development are being generated through issuance of bonds. The government has issued six-months treasury bills and 3, 5 and 10 years F.I.Bs which any individual institution or corporate body irrespective of its status can buy. This will bring in the required capital for development of infrastructure.

5.2 Loan Application Processing Time

All the financial institutions of the country have been advised by the government to accelerate the loan application process within a 60 day limit after their submission. The DFI's have also been advised to check the viability of the project, within the above mentioned period. Previously the loans were delayed due to deliberate mismanagement depriving and discouraging the investor for personal gains of the management.

5.3 Financial Mix for Investments

The debt and equity requirement for new investment by the present government is as follows. Debt for rural areas can be 80% with equity of 20% whereas for urban areas it is 70% debt and 30% equity.

Rural areas as classified by the government are the areas outside 10 Km of major industrial estates of Hub, Nooriabad, Chunnian and Hattar. Whereas they are 40 and 30 Km outside the cantonment limits of Karachi and Lahore respectively. 20 Km outside the cantonment limits of Sargodha, Hyderabad and Sukkur. Outside the limit of Islamabad Capital territory areas and falling outside limits of all the municipal committees and Cantonment Boards of Pakistan. This classification has opened up all of Pakistan for industrialization.

5.4 New Equity Ceiling for Public Companies

The equity ceilings for companies planning to go public has been increased from 50 million to 100 million to enable the stock exchanges to handle larger subscriptions and to allow common citizens to invest in industrial ventures.

6.0 SIMPLIFICATION OF PROCEDURES

The government has simplified various rules and regulations relating to development and establishment of industrial and trading enterprises.

6.1 Sanctioning Procedures

The enterprises have been given maximum liberty in choosing and establishing any industry. Foreigners have also been allowed to choose to invest in any industrial venture with a few exceptions .These are the following-: alcohol products, arms and ammunition, mint and security printing, high explosives and radio active substances.

Investment in the above requires specific approval of the government. Apart from these prohibited industries other areas are open to the investors so as to increase and build the economy of the country.

6.2 Role of Controller of Capital Issue (CCI)

The involvement of CCI and E has been done away by the government for the issuing of an import license. Any bank is capable of doing the above job now. This measures saves a lot of time and problems arising previously in acquiring the license.

6.3 Involvement of Ministry of Industry in Future Policy Making Decisions

The ministry of industry's involvement in the future policy making of the country by publishing rules related to foreign investments will facilitate the investment process by keeping the enterprises updated. Various policy measures have been implemented through the parliament to ensure the continuity of the policy. The measures have been taken by the government on the demand of the business community to get better results and strengthen the economic structure of the country.

7.0 FISCAL AND MONETARY INCENTIVES

Policies involving fiscal and monetary values and trade have been revived so as to bring about a major change in the industrial sector. It has provided the following incentives:

7.1 Tax Holiday Period

The present government has granted an eight year tax holiday to investors for setting up Industrial units between the 1st day of Dec 1990 and 30th June 1995. If the units set up are located in an urban center they are entitled to a three year tax holiday. Similarly, units in rural areas benefit from the concession for five years. The units located in even less developed regions are free from taxes for as much as 8 years. This will encourage investors to set up (limits in the stipulated period) so as to get maximum benefit from the tax exemption rules.

7.2 Exemption from Custom Duty, Surcharge and Sales Tax on Plants and Machinery

Similarly plant and machinery imported between Dec 1, 1990 and June 1995 for setting up or improving industrial units have been totally exempted from custom duty and surcharges and sales tax in rural areas. In the urban areas exemption of 25-50% is allowed. Similarly machinery required for units involved in bio-technology, electronics, fertilizers, fiber optics and solar energy, the location being extraneous, are exempt from all duty and sales tax and also enjoy a tax holiday of 4 years in all cases.

7.3 Import Duty on Raw Material

The duty on the import of raw materials has been reduced substantially so as to ensure proper and timely supply of materials to various industries. Higher valued items would be given higher rebates.

7.4 Free Exports

Exports from the tax free zones are completely free from exchange controls. Enterprises are not obligated to repatriate their export earnings back to Pakistan. Also the government has declared the current fiscal 1991-92 as "**export year** ". The determination of the government to move towards self reliance has managed to add more frills to the incentive package for exporters. It has already allowed Pakistani firms to enter into joint ventures with foreign companies in export trade. The aim of the government is to boost the country's exports to $10 billion mark which does not seem out of reach with the present export receipts at $6.1 billion. This step will encourage investors to set up units in the zone, bringing expertise and knowledge to the local labour force. Another added factor would be the utilization of local raw materials.

8.0 EXPORT PROCESSING ZONES (TAX FREE ZONE) IN THE COUNTRY

For the promotion of foreign investment and to encourage exports the government has export processing zones at Port Qasim Authority and Lahore. The following investors may establish undertakings in these zones. Foreign investors with 100% foreign owned investment, joint ventures with foreign investors and non resident Pakistanis.

8.1 Fiscal Incentives for Karachi Export Processing Zone (KEPZ)

The export processing zones provide the following incentives and facilities: relief from tax up to the year 2000 AD. After completion of the tax relief period income tax will be levied at 25% of the normal rate applicable. On the grant of import licensed entrepreneur will be exempted from custom duty, sales tax, octroi as well as any other charges.

Foreigners attached to enterprises operating in the zones are exempt from income tax for 5 years starting on their date of arrival. Income outside Pakistan is free from tax. Income which comes under the head " Capital gains" is not taxable. The losses will be carried forward indefinitely of an enterprise set in the zone.

8.2 Preferred Industries for Karachi Export Processing Zone

There is a certain preference for industries to be set up in the zone in Karachi; industries which have high value exports, sophisticated technology industries, processing local raw materials and industries which improve skills of Pakistan manpower. Also supporting enterprises providing essential services to the concerns located in the zone will receive preference. Along with the utilization of local raw materials this preference will also encourage investors to bring in sophisticated machinery for setting up units and thereby improve labor skills.

9.0 Privatization, Deregulation and Denationalization

In order to achieve objective of increased economic growth and stability, the government has started denationalizing most state owned units and nationalized units. Numerous public sector companies have been put out for bidding to private investors. Private investors with sound financial base and those offering highest bid are given the investment rights on the unit being privatized.

9.1 Muslim Commercial Bank and Allied Bank of Pakistan

The management of Muslim Commercial Bank has been handed over to private investors. The ownership of Allied Bank has been transferred to its employees. Over 7,500 employees have now become shareholders. Similarly all banks are being offered to private investors for majority share holdings.

9.2 Privatization of Public Sector Industries

In addition to the banks, other public sector organizations are being sold. Pakistan Telephone and Telegraph Corporation is preparing for its eventual sale. Applications have been invited for construction of a 4 lane Rawalpindi-Lahore highway and other such infrastructural projects.

9.3 Privatization of Economy

The steps taken by the present government to encourage investment from private investors, in various industrial sectors previously restricted to public sector only, has given rise to an improved and productive business environment.

Some of the steps taken by the government in this respect are as follow:

9.4 New Airline in the Private Sector

The decision by the government to establish private airlines in the country highlights its intentions. Both the sixth and seventh 5 year plans, in previous regimes, could not accomplish this. The airline which has been given the permission is owned by Agha Khan Foundation for Economic Development. Apart from providing better facilities to travellers, it will create a competitive atmosphere.

9.5 Commercial Banks in Private Sector

Invitations to private investors for setting up commercial banks is another of the government's economy boosting steps. Forty three investors have come forward. Approval for the establishment of ten new banks has been accorded, most of which are starting operation in the beginning of 1992.

9.6 Shipping Companies, Railway, Energy Sector and Communications

Twenty six parties have shown an interest in the establishment of shipping companies in the private sector. Several departments of Pakistan Railways have also been opened to private investors. With the assistance of the World Bank, USAID and other funding agencies the development of a large private power generation project, called HUB River power plant, is under way. Similarly natural gas distributions are also being considered to be granted to the private sector.

A private T.V. station, for entertainment programs, has been set up under the name N.T.M. Proposals from foreign and local investors have been asked for by the government to undertake large size infrastructure related projects such as:

9.7 Build Own Operate / Lease, Transfer (BOOT/BOT/BLT) Projects.

Installation of 500,000 telephone lines by 1992. So far four major international companies have been awarded work for this. Container terminals by Karachi Port Trust and the Port Qasim Authority in the private sector on BOT basis are being constructed. A free trade industrial zone in Port Qasim to activate port trade, etc.. to transform this area into high tech capital areas for the country is underway.

Highway construction projects are being offered to private investors. Providing energy to consumers at the prevailing cost has as a result brought the process to a higher level, than in the previous regimes. Previous governments also subsidized the energy sector which had a debilitatory effect in attracting private investors as cost was low thus resulting in lower profit margins. To make it profitable for private investors the government has affected the price in the energy sector.

9.8 Access to Defence Production Division

New vendors have been requested for the products used by the armed forces. This will give private investors access to the biggest and surest buyers of products and at the same time widening projectable marketing horizons. Most of the material for the manufacture of arms is imported. With this step local small arms(complementary) production units will come into being also creating a competitive atmosphere for the vendors to get contracts from the defence production division.

10.0 IMPACT OF GOVERNMENT POLICIES TOWARDS PRIVATIZATION

The present government has taken numerous steps to encourage investors and many new policies have been introduced to facilitate economic growth. These measures will have a long term effect. Not much can be expected during the first half of 1992. A few noteworthy and presently obvious effects of the measures and taken by the government are as follows:

10.1 Positive Response from Prospective Investors

For the investment in the establishment of private banks, airlines, shipping companies and other such ventures a very enthusiastic response has been received by the government from private investors. The enthusiasm on the part of private investors is mainly due to the concession offered by the government. This enthusiasm is reflected in forty three applications received for different banks in the country offered for privatization. Similar, was response received for investment in certain industries and companies. Investors are taking advantage of the conducive environment created by the government for investment. Some of the most prestigious multi-national groups have also taken advantage of the liberal concessions and have expanded or modernized their existing industrial units while others have started negotiations to get more information in order to avail the benefits of specific concessions and incentives. The fields in which foreign investors have shown interest include pharmaceutical, engineering goods, electronics, fertilizer, cement, mining etc..

10.2 Activity on Karachi Stock Exchange

The Karachi stock exchange has become very active and most recently the activity has reached such a crescendo that every day brings in an enlistment of new firms.

There is no discrimination whatsoever between local and foreign investors. The procedure for applying for shares has been made fool proof and share issues are open only for a day, so as to prevent any manipulation of the stock issue. With an emergence of new firms, the graph of market capitalization is steadily climbing.

10.3 Data on Karachi Stock Exchange

Number of listed companies	520
Listed Capital	Rs. 33 Bn (US$ 1.36 Bn)
Market Capitalization	Rs. 106.8 Bn (US$ 4.36 Bn)
No Companies listed during 1990	49
No of Companies listed in 1991	39
No provisionally listed in 1991	08
No in the process of being listed	23
No of applicants	05

(Stock Exchange official data as released on October 21st, 1991).

The trading volume has also increased to over five millions of shares per day. An example of the increase in shares is the soaring of volume from 3.851 to 5.57 million shares in one day (between 12 and 13 Jan.). The NDFC industrial survey showed the increase of 15% in output of only 4 industries out of the 22 surveyed. These 4 industries are: Sugar, Chemicals, Pharmaceutical, Vanespati and allied units and metal products.

10.4 Social Reforms

In addition to economic reforms the present government has taken steps to improve the social and political environment. The Shariat bill is considered to be a major step to ensure, and protect the rights of Pakistanis. The bill stresses and ensures the following measures.

- Teaching and training in the shariat and Islamic jurisprudence.

- Police reforms to ensure the protection of the basic civil rights of the people.

- Stringent measures to deal with corruption in all departments of life through administrative measures.

- To conform to Islamic norms by promoting Islamic values through different media.

A lot has been achieved in the few months to improve the law and order situation. The provincial government is taking certain measures to improve the condition in the rural areas of Sindh in collaboration with the Federal government.

By liberalizing the rules on equity participation the government has encouraged investment in the country.

The deregulation of foreign exchange rules has facilitated the inflow of foreign capital. With many decisions favorable for investors abroad and at home the government has provided a business climate conducive to future economic prosperity.

The government is adopting many long term policies covering, among others, education, technology, agriculture, health, labor and petroleum .

The main purpose of these reforms has been to achieve self sufficiency so that the country, by gradual development, depends less on foreign assistance and thus isn't forced to accept loans with political strings and conditions attached. Also these reforms are aimed at providing and creating adequate resources for accelerated economic and social progress.