



Investment Climate Statement - Pakistan

May 2021

Mizuho Bank, Ltd.

Global Strategic Advisory Department

I. Country Profile

II. Investment-related Information

III. Establishing a Local Subsidiary

IV. Regulations, Incentives, Reference Information

I-1. Key Economic Indicators for Asia

Country/Region	Pakistan	Myanmar	Vietnam	Laos	Cambodia	India
Population (millions)	208.6	53.2	97.4	7.3	15.7	1,378.6
Nominal GDP (US\$100 million)	2,628	813	3,408	191	260	27,088
Real GDP growth rate (y-o-y, %)	-0.4	3.2	2.9	-0.4	-3.5	-8.0
GDP per capita (US\$)	1,260	1,527	3,499	2,626	1,655	1,965
Estimated GDP growth rate (2021, %)	1.5	-8.9	6.5	4.6	4.2	12.5
Credit rating (S&P) as of Mar. 2021	B-	n.a.	BB	n.a.	n.a.	BBB-
Country/Region	Sri Lanka	Indonesia	Thailand	Malaysia	The Philippines	China
Population (millions)	21.9	270.2	69.8	32.9	108.8	1,404.3
Nominal GDP (US\$100 million)	807	10,596	5,019	3,383	3,622	147,228
Real GDP growth rate (y-o-y, %)	-3.6	-2.1	-6.1	-5.6	-9.5	2.3
GDP per capita (US\$)	3,679	3,922	7,190	10,270	3,330	10,484
Estimated GDP growth rate (2021, %)	4.0	4.3	2.6	6.5	6.9	8.4
Credit rating (S&P) as of Mar. 2021	CCC+	BBB	BBB+	A-	BBB+	A+

Source: Prepared by MHBK's Global Strategic Advisory Dept. based on the IMF's World Economic Outlook Database, April 2021 edition, and the S&P website

- Data are for 2020; estimated GDP growth rates are for 2021, and italicized data are IMF estimates.

S&P rating criteria:

A: An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

BBB: An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

BB: An obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitments.

- As of March 31, 2021, for the S&P credit rating

I-2. Basic Data and Overview



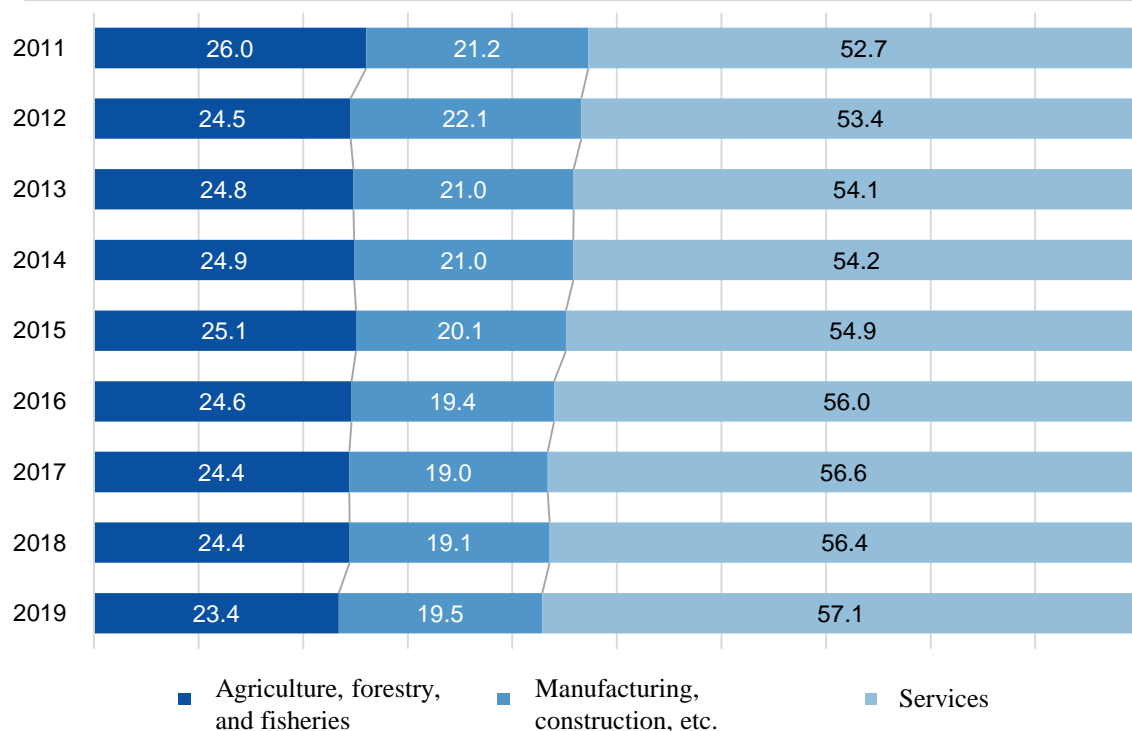
Population	208.6 million persons (FY2020, IMF) (6 th largest population in the world)
Square area	796,000 Km ² approx. (Twice Japan's size)
Capital	Islamabad
Administrative units	4 provinces and one federal territory
Language	National language: Urdu; Official language: English
Ethnicities	Punjabis, Pashtuns, Sindhis, and Baloch
Religions	Islam
Currency	Pakistani rupees (PKR) (1US\$ = 152.66 rupees; 1JPY = 1.38 rupees, as of the end of March 2021)
Politics	Federal republic
Head of State	President Arif Alvi
Legislature	Bicameral system
Prime Minister	Imran Khan
History	1947: Gained independence from British India 1971: East Pakistan became the independent country of Bangladesh following the Indo-Pakistan War of 1971
GDP	Nominal: US\$262.8 billion; Per capita: US\$1,260 (FY2020, IMF) Real GDP growth rate: minus 0.4% (FY2020, IMF)
Major industries	Agriculture, textile industry
Degree of Risk	Islamabad Metropolitan Area, Lahore, Karachi (Level 2: Continued)

Source: Prepared by MHBK's Global Strategic Advisory Dept. based on materials from Japan's Ministry of Foreign Affairs, JETRO, and IMF

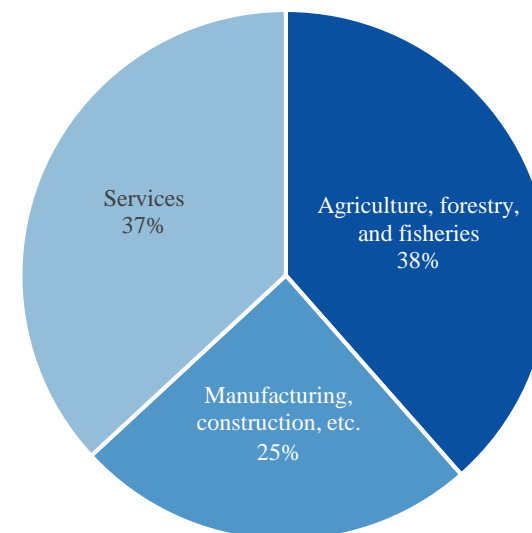
I-3. Economic Structure (Industry/Trade) (1): Industrial Structure

- The number of workers in the agriculture, forestry and fisheries industries is extremely high, at about 40% of the total, and the percentage in the service industry, particularly IT, has increased in recent years.
- The textile and apparel industries are the core industries, and both are strongly influenced by domestic cotton production. Thus, the agricultural sector and the manufacturing sector are closely related, and the economy as a whole is easily affected by fluctuations in the agricultural sector.

GDP Composition by Industry



Working Population by Industry (%) (2018)

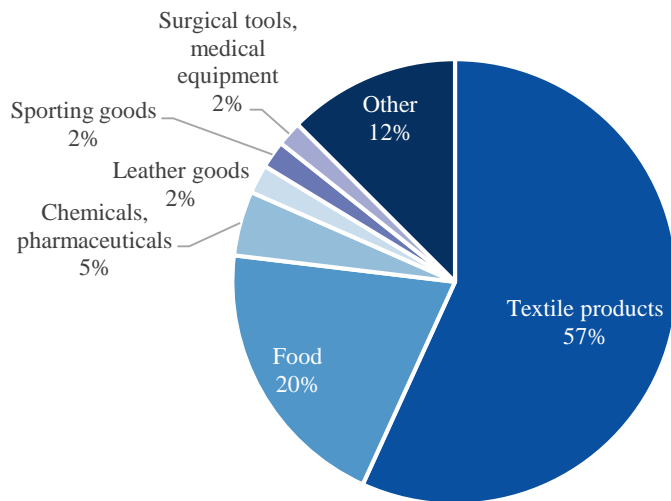


Source: Prepared by MHBK's Global Strategic Advisory Dept. based on materials of the Asian Development Bank

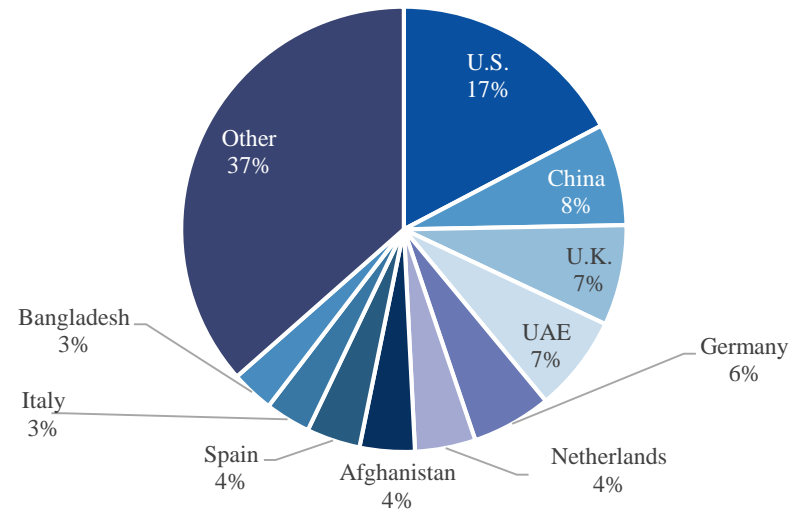
I-3. Economic Structure (Industry/Trade) (2): Export Structure

- About 60% of exports consist of cotton fabrics, knits, and textile products. There are many low value-added primary products or processed products thereof. The problem is that these products lack export competitiveness, such as in pricing.
- Looking at export destinations by country/region, they are widely dispersed and include Afghanistan and Bangladesh in addition to the US, China, and the UK. Exports to the UAE and Afghanistan continue to be stable. Pakistan is expected to play a role as a gateway to Central Asia and the Middle East.

Breakdown of Exports by Goods (2019)



Breakdown of Exports by Country/Region (2019)

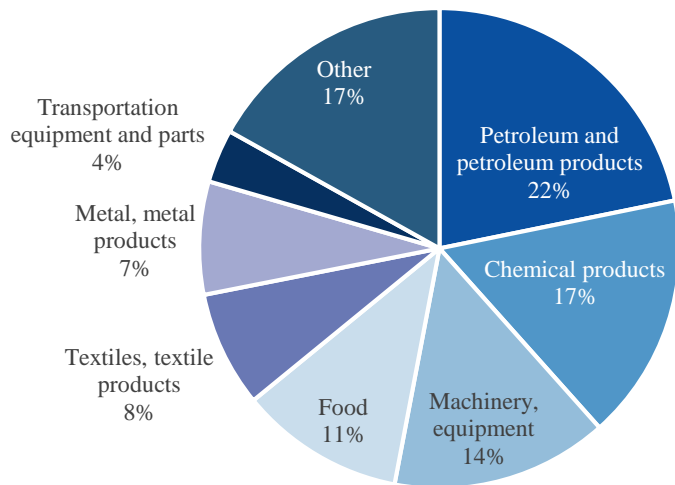


Source: Prepared by MHBK's Global Strategic Advisory Dept. based on materials from JETRO

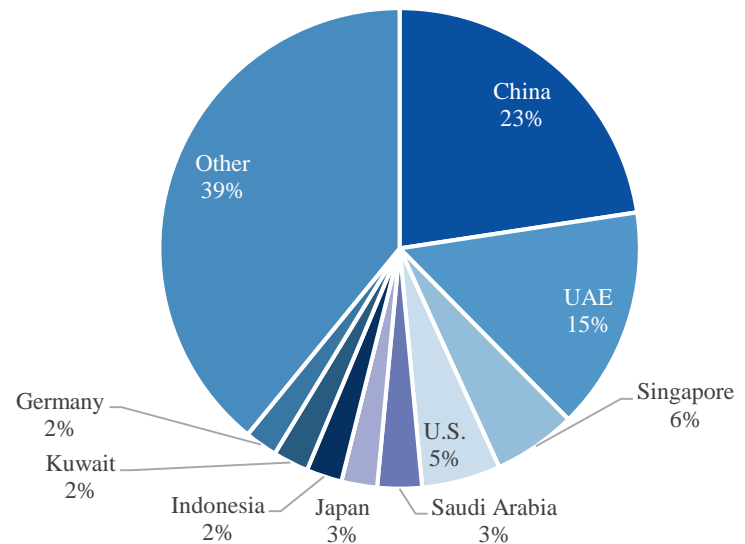
I-3. Economic Structure (Industry/Trade) (3): Import Structure

- By goods, crude oil and petroleum products account for about 20% of the leading import items, followed by chemical products such as agricultural fertilizers, and then machinery and equipment for textiles, communications, and power generation.
- By country/region, China accounts for the largest weight due to the effects of FTAs with China and the imports of capital goods from businesses related to the China-Pakistan Economic Corridor (CPEC).

Breakdown of Imports by Goods (2019)



Breakdown of Imports by Country/Region (2019)



Source: Prepared by MHBK's Global Strategic Advisory Dept. based on materials from JETRO

I-4. Social, Economic and Industry Characteristics

- In July 2019, the IMF decided to lend Pakistan about US\$6 billion over a three-year period, subject to fiscal consolidation including rebuilding the energy industry. A future issue is how Pakistan will make up for its foreign currency shortage while maintaining relations with China.
- Some compromises aimed at resuming trade with India can be seen, against the backdrop of economic deterioration caused by the impact of the COVID-19 pandemic.

Economics

- From the 1960s to the 1980s, the GDP growth rate remained high, at 5% on average, due to improved productivity caused by the agricultural technological innovation known as the “Green Revolution.” However, in the 1990s, the growth rate stagnated due to rising defense costs and a feeling of political blockage. The 1990s are referred to as “Pakistan’s lost decade.”
- Although the industrial and IT services sectors grew in the 2000s, economic growth slowed further due to political turmoil, a decrease in foreign investment, high oil prices, and an increased budget deficit. In 2008, Pakistan requested a loan from the IMF.
- In recent years, China’s infrastructure development project based on the CPEC concept has progressed, and the domestic economy has been temporarily revitalized. Meanwhile, external imbalances have accumulated, and the current account deficit has expanded. Thus, Pakistan is suffering from a budget deficit as a result of its lack of foreign exchange reserves and its dole-out policy.

Politics

- Since independence in 1947, civilian and military administrations have alternated, and a democratic government has continued since 2008.
- In 2018, a coalition government centered on the Pakistan Tehreek-e-Insaf (PTI) movement led by Prime Minister Imran Khan was launched with a base of military support. Aiming to build an “Islamic welfare state,” it advocated social reforms such as healthcare, education, and safety nets, and the eradication of corruption.
- Regarding Prime Minister Khan, the impacts of the economic slowdown and the COVID-19 pandemic have cast a shadow on his popularity, compared to his popularity at his inauguration in August 2018. However, the outlook is that he will continue to sustain his administration while maintaining good relations with the military.

Foreign diplomacy

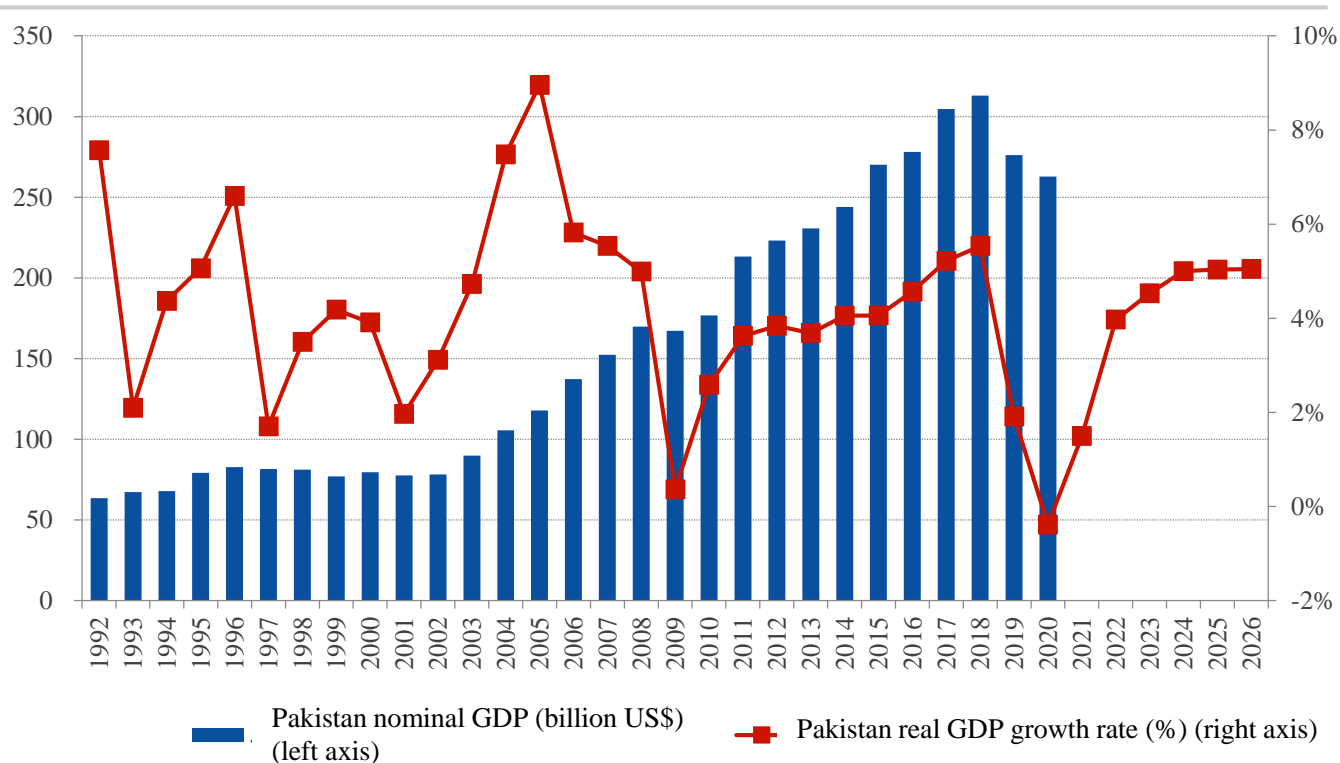
- Historically, while maintaining friendly relations with Western countries, Pakistan has also had a rivalry with India. In recent years, Pakistan’s relations with China have been strengthened through CPEC projects, etc.
- In 2019, relations with India rapidly deteriorated due to aerial bombing by the Indian military, which appears to have been retaliation for a suicide bombing targeting Indian security forces, and due to the deprivation of the autonomy of Jammu and Kashmir, a region which is effectively controlled by India.
- In 2021, India and Pakistan both announced a ceasefire. Pakistan’s Khan administration has shifted its focus to relations with neighboring countries such as India and Afghanistan and is expected to resume dialogue for long-term peace with India.

Source: Prepared by MHBK’s Global Strategic Advisory Dept. based on various materials

I-5. Economic Environment (1): Mid- to Long-term Growth Trends

- In 2020, the GDP growth rate fell to minus 0.4% due to the suspension of the tourism industry as part of efforts to contain the coronavirus and the closure of companies involved in non-necessities. This marked the first negative growth in 68 years, since 1952.

Trends in Nominal GDP and Real GDP Growth Rate



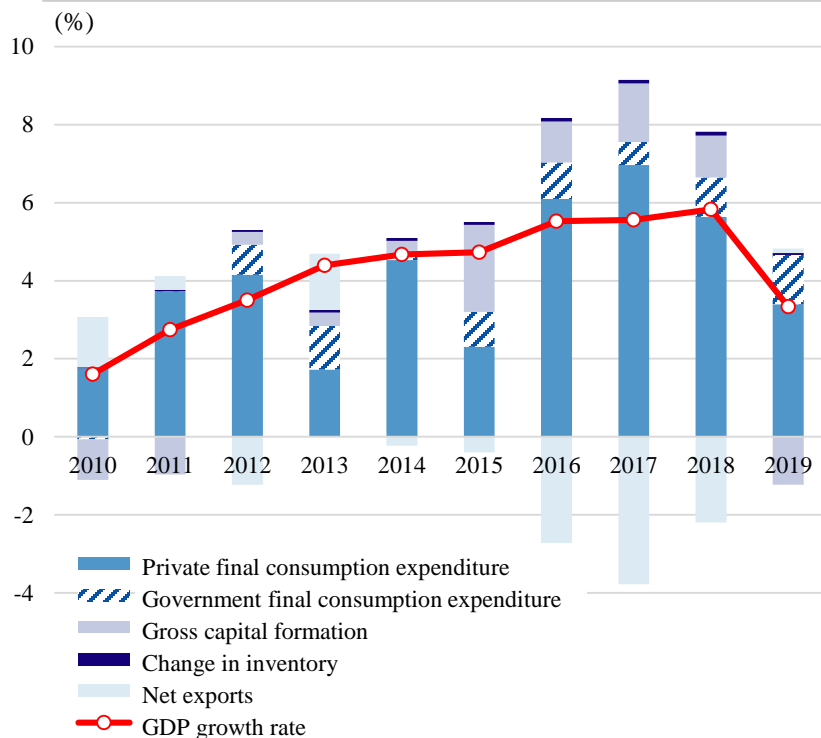
Note: Nominal GDP from 2021 onward is not available.

Source: Prepared by MHBK's Global Strategic Advisory Dept. based on the IMF's World Economic Outlook Database, April 2021 edition

I-5. Economic Environment (2): Real GDP Growth Rate and Exchange Rate

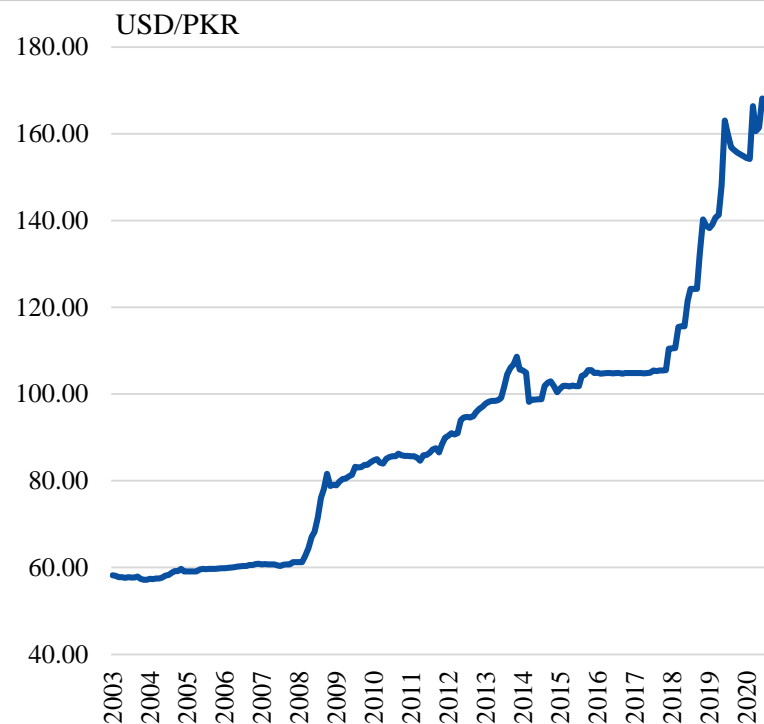
- In 2019, the real GDP growth rate declined due to lower personal consumption, affected by the impact of interest rate hikes and fiscal austerity, and the decline in infrastructure investment. The real GDP growth rate is expected to decrease further in 2020 due to the impact of the COVID-19 pandemic.
- From 2018, the depreciation of the rupee due to the supply/demand gap will accelerate, and the increase in import costs will have a significant impact on corporate management.

Real GDP Growth Rate (by demand type)



Source: Prepared by MHBK's Global Strategic Advisory Dept. based on the UN's National Accounts

Pakistani Rupee Rate (against the US dollar)

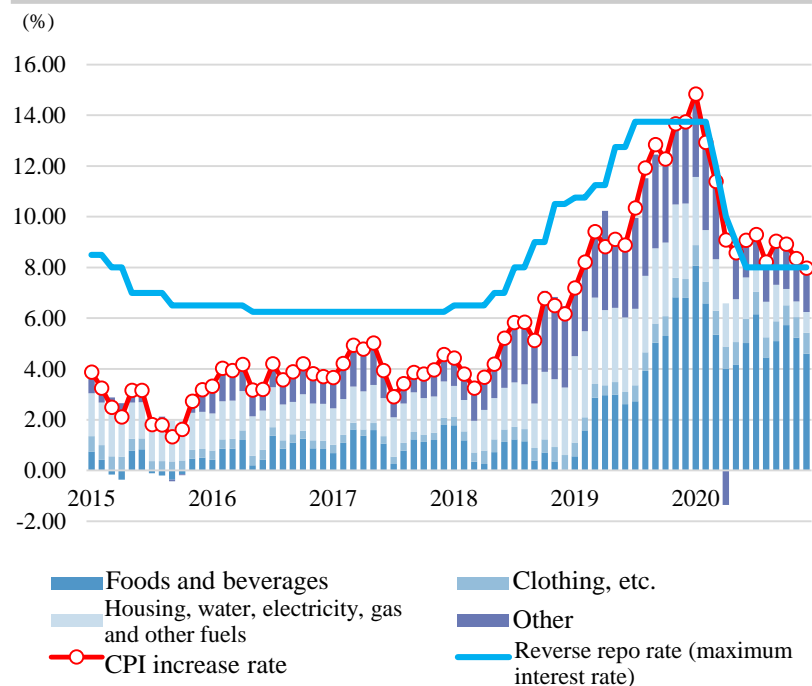


Source: Prepared by MHBK's Global Strategic Advisory Dept. based on the IMF's "International Financial Statistics"

I-5. Economic Environment (3): Consumer Price Index and Finances

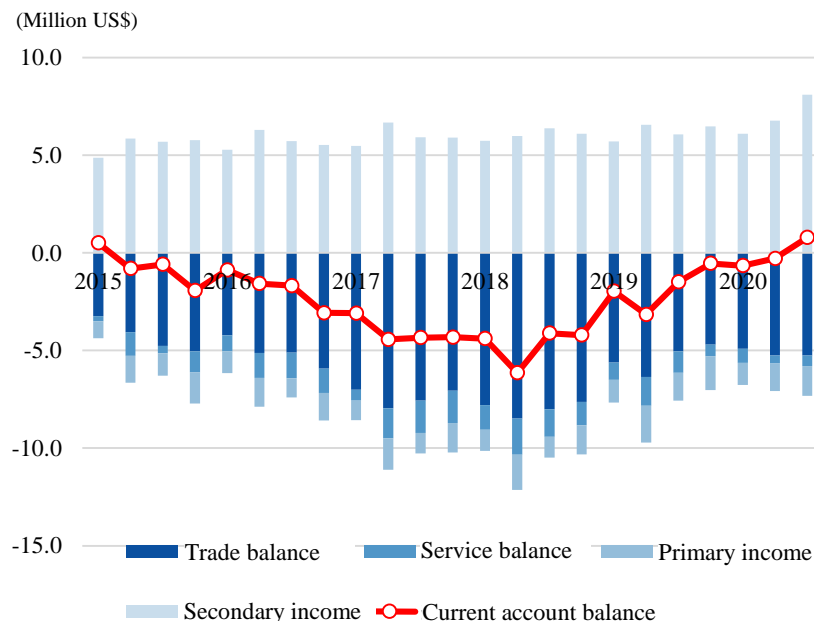
- Regarding the CPI rate of increase, the pace of price increases accelerated from 2018 due to the depreciation of the rupee, and the CPI peaked at 14.8% in January 2020 and then fell. Currently, it is moving at a level of approximately 8% to 9%.
- Remittances from overseas workers, mainly in the Middle East, are a valuable source of foreign currency, and the balance on secondary income is in the black. On the other hand, since Pakistan is a net importer of crude oil, it is easily affected by crude oil prices, and its trade balance continues to be in the red.

CPI Increase Rate (contribution by item)



Source: Prepared by MHBK's Global Strategic Advisory Dept. based on the IMF's "International Financial Statistics"

Current Account Balance



Source: Prepared by MHBK's Global Strategic Advisory Dept. based on the IMF's "BOP/IIP"

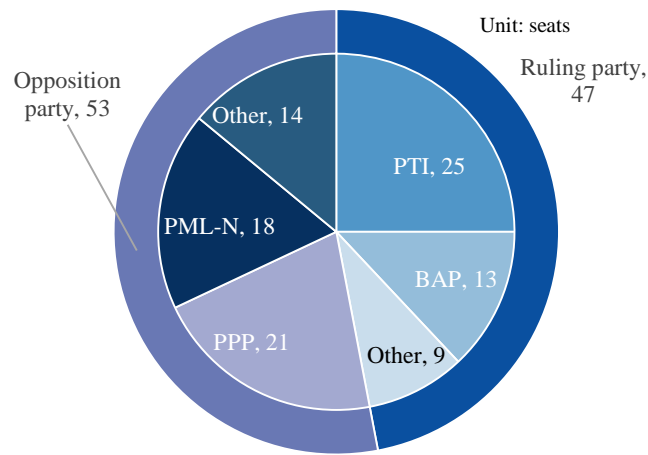
I-6. Political Situation

- The president, who is the head of state, is selected through indirect elections by both houses of Parliament and four provincial assemblies. The prime minister, who is in charge of administration, is appointed by the president based on the nomination of the Parliament.
- In 2018, the National Assembly was dissolved due to the expiration of its term. As a result of the general election, the opposition party PTI (Pakistan Tehreek-e-Insaf [Pakistan Movement for Justice]) won and Imran Khan became prime minister. This is the second time since 2013 that the administration has changed as the result of an election, and democratic politics has gradually penetrated.
- In 2021, as a result of the Senate election, the ruling PTI led by Prime Minister Khan won 18 out of 48 seats and became the top party (as the ruling party, it increased its number of seats from 23 to 47).

Structure of Pakistan's Parliament

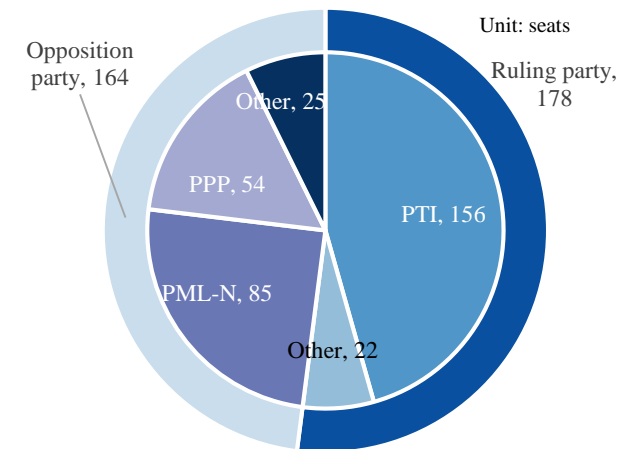
Upper House (Senate)	<ul style="list-style-type: none"> • Term of office 6 years (half re-elected every 3 years) • 104 seats total (indirect election) 92 seats: Elected by four provincial assemblies 12 seats: Selected from the capital Islamabad and northwest tribal areas
Lower House (National Assembly)	<ul style="list-style-type: none"> • Term of office: 5 years • 342 seats total (single-seat constituency system) 60 seats : Reserved for women 10 seats : Reserved for non-Muslims

Number of Senate Seats by Party After March 2021 Election



PTI: Pakistan Tehreek-e-Insaf (Pakistan Movement for Justice)
 BAP: Balochistan Awami Party (Balochistan People's Party)
 PPP: Pakistan Peoples Party
 PML-N: Pakistani Muslim League (Nawaz)

Number of National Assembly Seats by Party After July 2018 Election



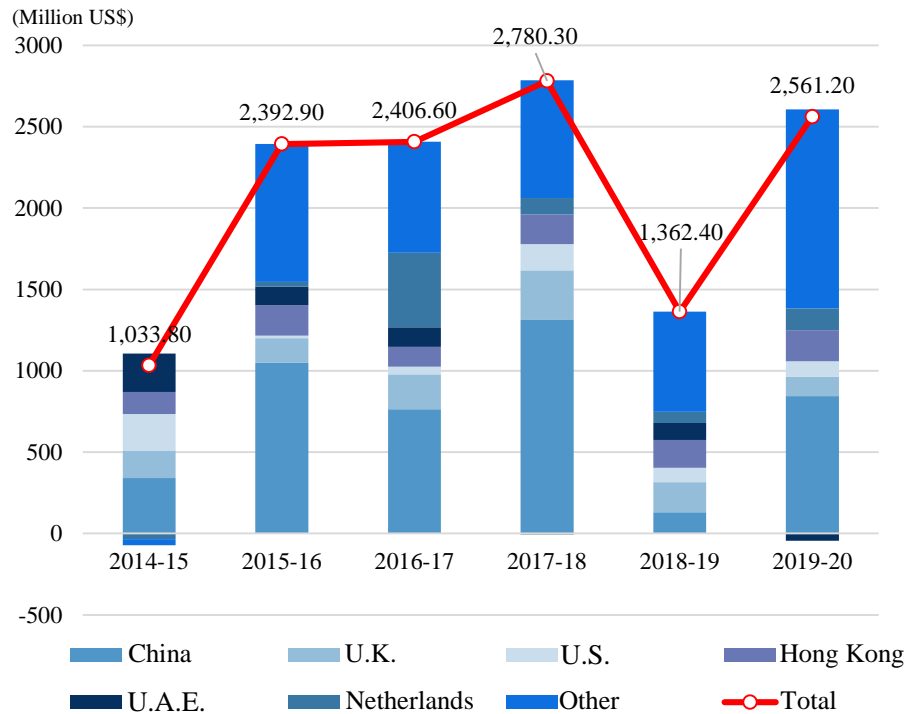
Source: Prepared by MHBK's Global Strategic Advisory Dept.
 based on various materials

Source: Prepared by MHBK's Global Strategic Advisory Dept.
 based on materials from the Election Commission of Pakistan

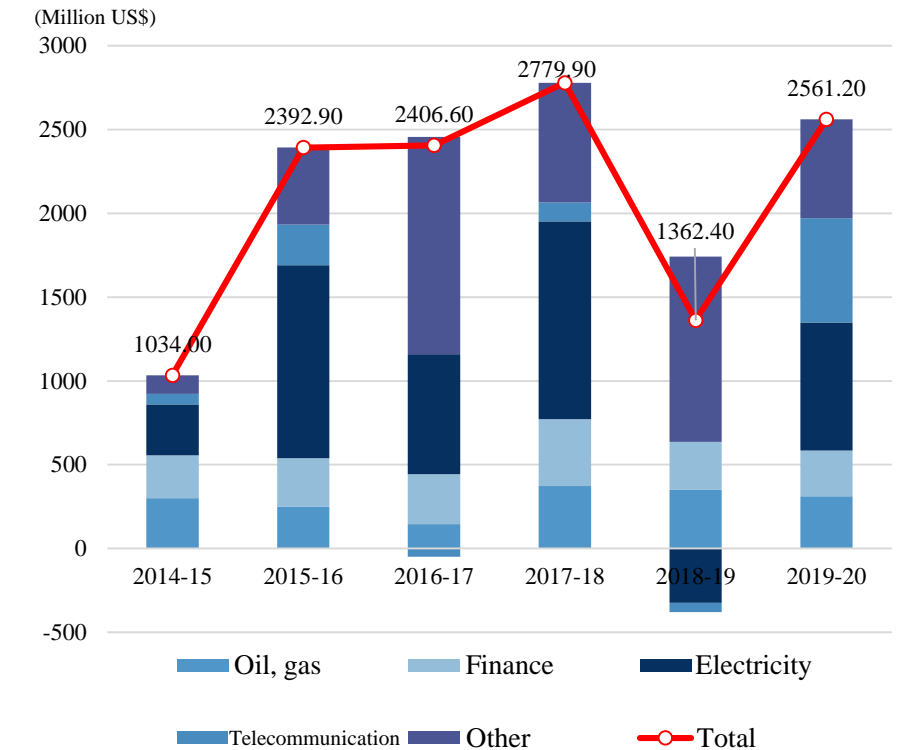
I-7. Direct Investment Trends: Inward Investment

- The rapid increase in investment in recent years is due to investment by Chinese construction companies and electric power companies, as part of business related to the CPEC. The investment by China greatly exceeds the amount of investment by other countries/regions.
- Because many electric power development projects are being implemented at CPEC, there is much investment in the electric power sector by industries.

Trends by Country/Region



Trends by Industry



Source: Prepared by MHBK's Global Strategic Advisory Dept. based on materials from Pakistan's Board of Investment

I-8. Potential as an Investment Destination

- Pakistan is positioned as part of the emerging group of countries called the “Next 11” following the BRICs, and future growth is expected.
- In addition to the textile industry and apparel industry, which are core industries, the automobile industry is concentrated in Pakistan. The country is promoting domestic production by new foreign automakers based on its Automotive Development Policy (ADP).

Attractiveness of Investing

Market	<ul style="list-style-type: none"> • A high-growth market with a population of 200 million, the 6th largest in the world • The auto market (300,000 vehicles) is almost monopolized by Japanese automakers. It is predicted that the market will expand to 500,000 to 1 million vehicles in the future.
Labor Force	<ul style="list-style-type: none"> • Abundant labor force • English is the official language; plentiful human resources fluent in English
Pro-Japan Sentiment	<ul style="list-style-type: none"> • Contributed to the reconstruction of Japan’s textile industry following WWII by providing first imports of cotton

Investment Considerations (issues)

Infrastructure	<ul style="list-style-type: none"> • The power supply is unstable, and power outages occur on a daily basis. • The water network does not cover the whole country, and in some areas, water is purchased from distribution tanks.
Security	<ul style="list-style-type: none"> • Although security is improving, concerns about deteriorating security have not been dispelled, and ensuring safety is an issue.
Tax System	<ul style="list-style-type: none"> • High customs duties that hinder imports and sales • Complex tax system (tax filing, etc.)

Source: Prepared by MHBK’s Global Strategic Advisory Dept. based on various materials

I. Country Profile

II. Investment-related Information

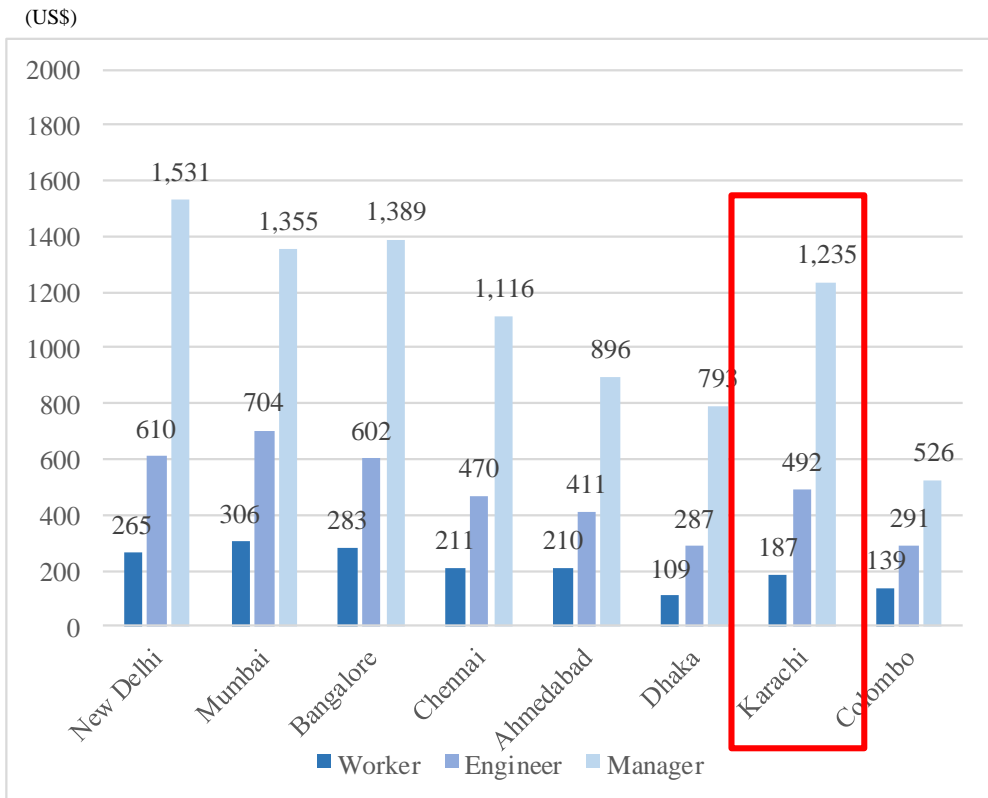
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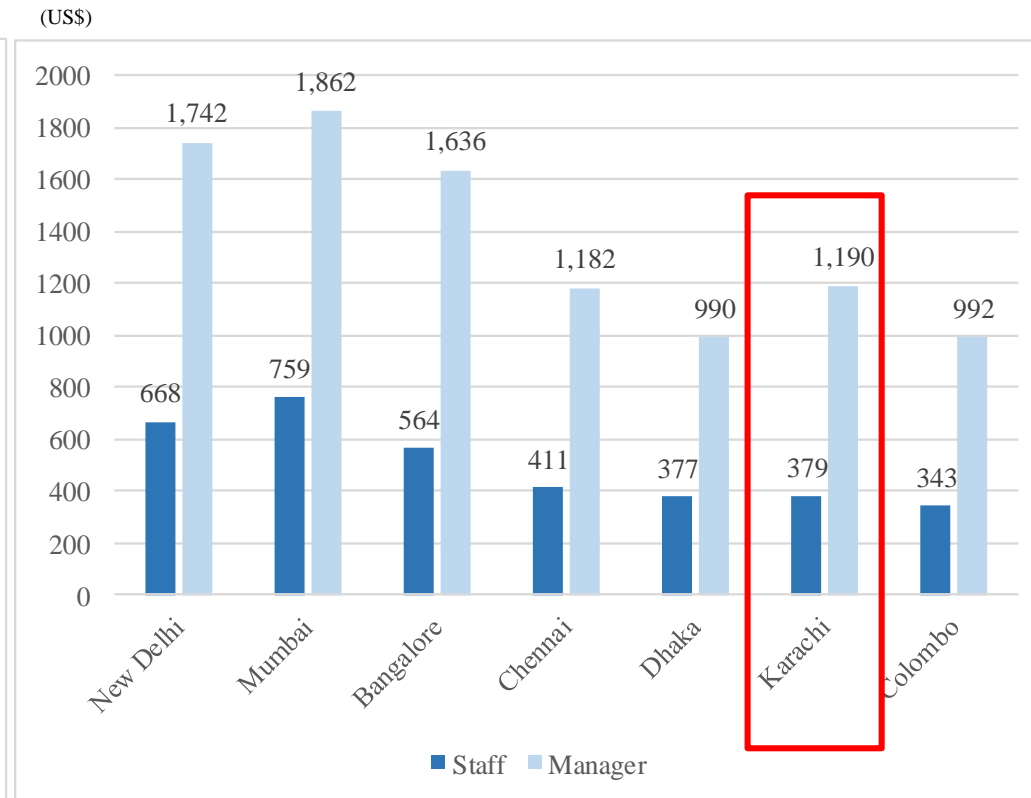
II-1. Labor-related Information: Labor Cost

- The monthly wage of workers in the manufacturing industry is US\$187, which is lower than in major Indian cities.
- The non-manufacturing staff's wage is US\$379, which is lower than in major Indian cities and about the same as in Dhaka, Bangladesh.

Manufacturing Wage Comparison (monthly)



Non-manufacturing Wage Comparison (monthly)



Source: Prepared by MHBK's Global Strategic Advisory Dept. based on JETRO's "Comparative Survey of Investment-Related Costs in Major Cities and Regions" (as of December 2020)

II-2. Special Economic Zones (SEZs)

- Companies that started production by June 30, 2020, are exempt from income tax for 10 years, and companies that start production after that are exempt from income tax for 5 years.
- Capital goods constructed and installed in SEZs are exempted once from import duties.
- Only Bin Qasim SEZ in Sindh has been utilized by Japanese companies.

Khyber Pakhtunkhwa

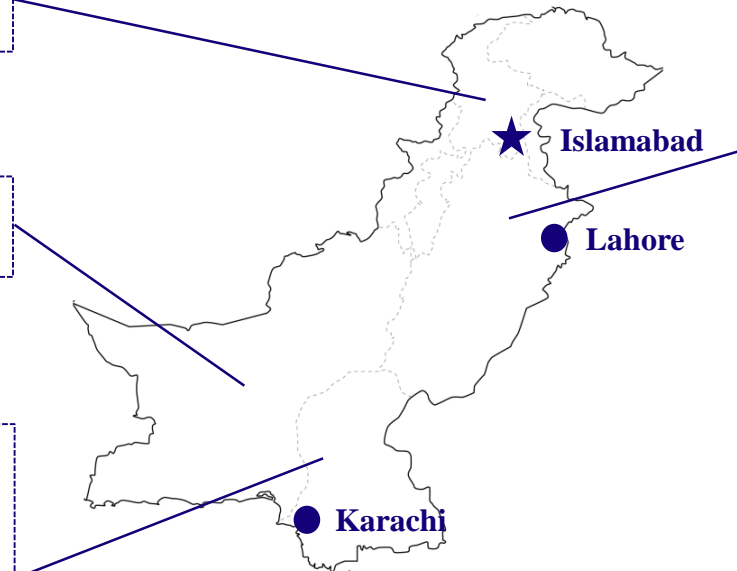
- Hattar Phase VII SEZ
- Rashakai SEZ

Balochistan

- Hub SEZ
- Bostan SEZ

Sindh

- Bin Qasim SEZ
- Khairpur SEZ
- Korangi Creek SEZ
- Naushehro Feroze SEZ



Punjab

- Quaid-e-Azam SEZ
- M3 Industrial City SEZ
- Value Addition City SEZ
- Rahim Yar Khan SEZ
- Allama Iqbal SEZ
- Oil Village SEZ
- Vehari SEZ
- Rachna SEZ
- Bhalwal SEZ

Source: Prepared by MHBK's Global Strategic Advisory Dept. based on BOI materials

II-3. Tax-related Information (1): Corporate Tax

- Corporate taxes under the income tax law include corporate income tax, withholding tax, and sales tax.

Corporate Income Tax

- ✓ When calculating taxable income, it is possible to deduct expenses, carry forward losses, and use tax credits.

Corporate tax rate	Bank tax rate
21%–29%	35%

Withholding Tax (Prepaid Income Tax)

- ✓ Corporate income tax is paid under the Normal Tax Regime (NTR), but if a specific payment/receipt is made, the Final Tax Regime (FTR) may be applied and prepaid income tax may be collected. No expense credits, loss carryforwards, or use of tax credits are permitted.
- ✓ No other tax is levied on the income taxed under the FTR.

Sales Tax (Minimum Tax)

- ✓ Applicable to domestic companies with sales of 10 million rupees or more
- ✓ A system that compares the amount equivalent to 1.5% of sales in the current fiscal year with corporate income tax and collects larger of the two amounts (applicable even when gross profit is in the red)
- ✓ If a company pays sales tax, it can carry over the amount paid in excess of corporate income tax for 5 years. However, if corporate income tax is not applicable due to net loss (deficit), carryover is not permitted.

Source: Prepared by MHBK's Global Strategic Advisory Dept. based on various materials (as of March 2021)

II-3. Tax-related Information (2): Withholding Tax and Customs Duties/Taxes

- Tax rates change frequently and need to be confirmed each time.

Withholding Tax

- ✓ The Japan-Pakistan Tax Treaty was amended and effectuated in 2008.

Types of Payments	Limited Rates of Taxation According to Tax Treaties
Interest payments received	10%
Dividends received	Shareholding ratio 50% or above: 5% 25% or above: 7.5% Other cases: 10%
Royalties, technical services	10%

Customs Duties/Taxes

- ✓ Pakistan's customs system is a single tariff system, based on the Customs Act 1969.
- ✓ The statutory fixed tax rate applies to imports from Japan.
- ✓ Withholding tax is applied as prepaid income tax at the time of import.

Taxable Items	Notes
General duties	Duty rates for luxury goods and non-necessities are high, and rates on plant materials and equipment required by industry are set lower than those on general consumer goods.
Adjusted tariffs	For certain items, adjusted tariffs up to 100% of the tax base are applied, in addition to the basic tax rate.
Additional tariffs	For certain items, additional tariffs up to 35% of the tax based are applied, in addition to the basic tax rate.
Special tariffs	There are cases of special tariffs applied to certain imported items that compete with domestic industry, in addition to the basic tax rate.
Sales tax	A uniform 17% tax (ad valorem tax) is applied to all imported goods, using the value after customs duty payment as the tax base.
Federal excise duties	Applies to certain imports, exports, domestic products and services provided domestically.

Source: Prepared by MHBK's Global Strategic Advisory Dept. based on various materials (as of March 2021)

II-3. Tax-related Information (3): Other Tax Systems

Personal Income Tax

- ✓ For individuals whose salary income is 75% or more of taxable income, the following tax rates apply (FY2020/2021).

Annual Taxable Income (rupees)	Tax Rate
600,000 or less	No tax
Over 600,000 to 1.2 million	5% of portion over 600,000
Over 1.2 million to 1.8 million	10% of the portion over 1.2 million + 300,000
Over 1.8 million to 2.5 million	15% of the portion over 1.8 million + 900,000
Over 2.5 million to 3.5 million	17.5% of the portion over 2.5 million + 195,000
Over 3.5 million to 5 million	20% of the portion over 3.5 million + 370,000
Over 5 million to 8 million	22.5% of the portion over 5 million + 670,000
Over 8 million to 12 million	25% of the portion over 8 million + 1.345 million
Over 12 million to 30 million	27.5% of the portion over 12 million + 2.345 million
Over 30 million to 50 million	30% of the portion over 30 million + 7.295 million
Over 50 million to 75 million	32.5% of the portion over 50 million + 13.295 million
Over 75 million	35% of the portion over 75 million + 21.42 million

Sales Tax

- ✓ The standard sales tax rate is 17% for merchandise. For services, it is 13%–16% depending on the province in which the service provider is located or the province where the service is used.

Federal Excise Tax

- ✓ Levied on certain goods and services, including tobacco, gasoline, aviation, telecommunications, financial services, etc.

Source: Prepared by MHBK's Global Strategic Advisory Dept. based on various materials (as of March 2021)

II-4. Information on Logistics

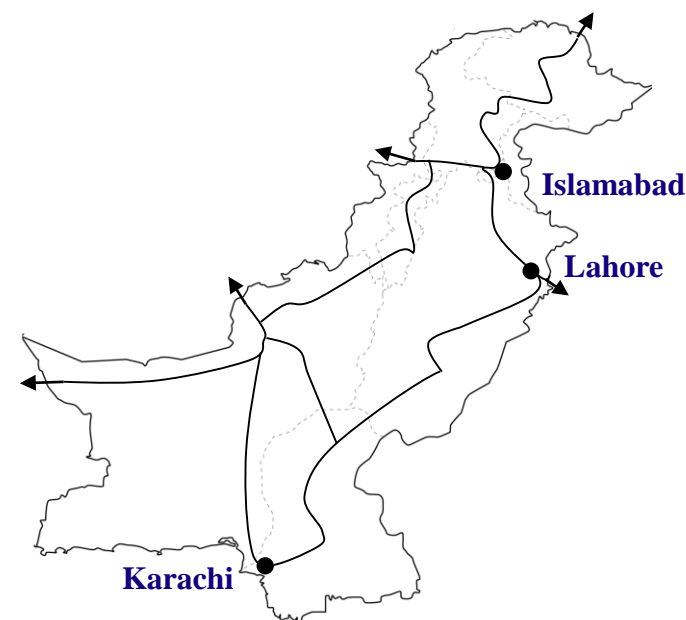
- Pakistan is the gateway to Central Asia, and if peace with Afghanistan is realized, it has the potential to become a logistics hub connecting Asia, Eurasia, and Europe.
- Pakistan's road transportation infrastructure is better than its railroads, and air freight is increasingly used mainly for small cargo.

Domestic Logistics Environment

Roads	<ul style="list-style-type: none"> • The length of roads in Pakistan is 261,595 km. • The length of main trunk roads including the highways is 12,131 km. • As part of the CPEC, the plan is to develop five routes, a total of 996 km of roads.
Railways	<ul style="list-style-type: none"> • The track length of all lines is 11,881 km. • To transport coal used for thermal power generation, higher speed railways and higher capacity railways are being built using CPEC loans.
Ports	<ul style="list-style-type: none"> • Two international ports (Karachi and Qasim), and a new port under construction in Gwadar • Three fishing ports (Minora, Gwadar, and Keti Bandar)
Air	<ul style="list-style-type: none"> • General domestic cargo is mainly transported by Pakistan International Airlines. • In addition to Pakistan International Airlines, foreign airlines such as Emirates Airlines and Gulf Air participate in the import/export of cargo.

Source: Prepared by MHBK's Global Strategic Advisory Dept. based on various materials

Pakistan's Asian Highway Routes



Source: Prepared by MHBK's Global Strategic Advisory Dept. based on materials from Japan's Ministry of Land, Infrastructure, Transport and Tourism

I. Country Profile

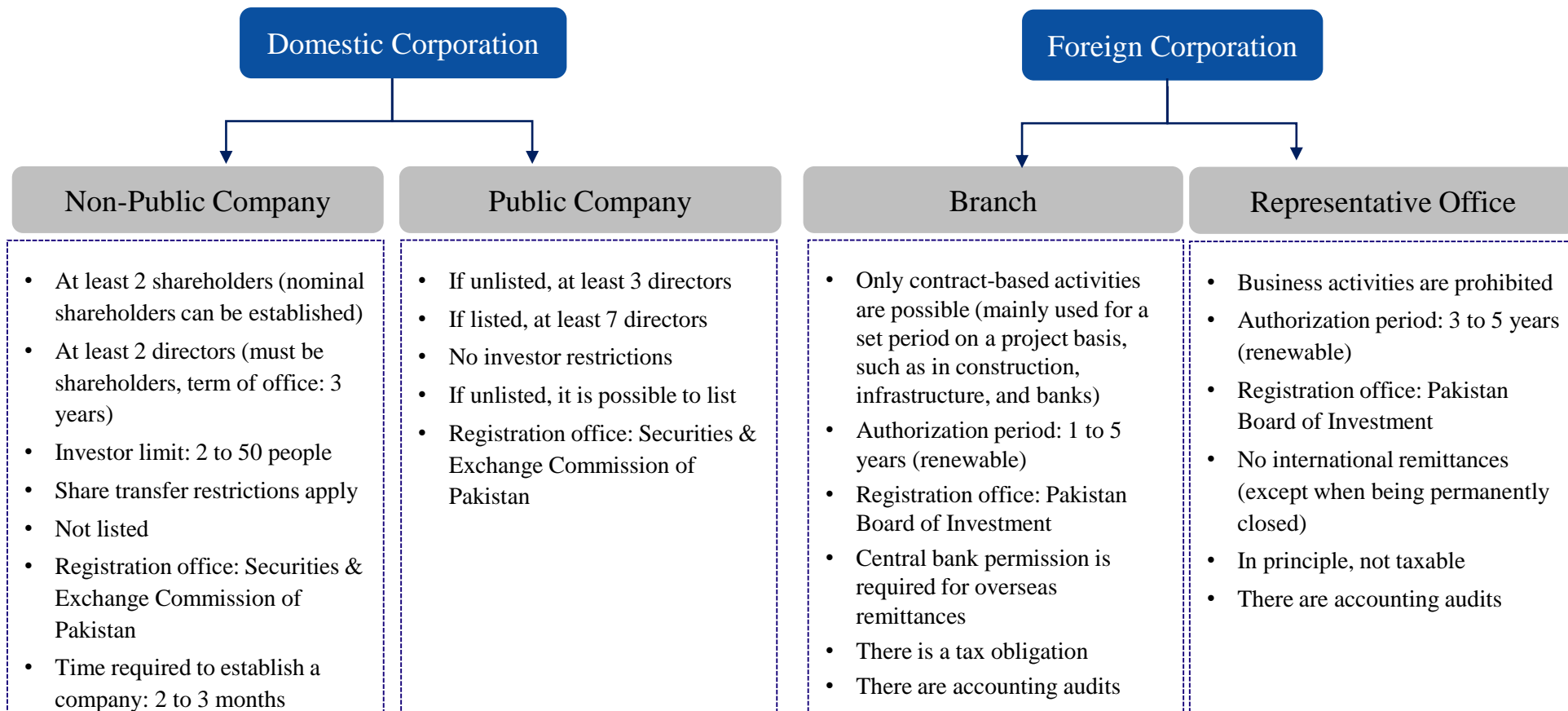
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III-1. Business Models

- There are three ways to establish a base in Pakistan: a local subsidiary, a branch, or a representative office.
- Although the 2017 Limited Liability Partnership Law (LLP Law) made it possible to enter the market in the form of an LLP, there are few cases of foreign companies utilizing this.



Source: Prepared by MHBK's Global Strategic Advisory Dept. based on various materials

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IV-1. Regulations for Foreign Investors

- There are no restrictions on foreign capital except for in specific industries. It is possible to establish a company with 100% foreign capital in most industries, including service industries such as retail.
- There are no minimum capital restrictions on foreign investment in the manufacturing and service industries.
- There are no particular rules of employment for foreigners, based on domestic law. There is no obligation to hire local people.

Industries Requiring Government Approval

1. Weapons and ammunition
2. High-explosive materials
3. Radioactive substances
4. Securities, banknote printing/minting
5. New establishment of facilities for producing alcoholic beverages (excluding industrial use)

Industries with an Upper Limit on Investment Ratio

1. Aviation
2. Banking
3. Agriculture*
4. Media

*Farm management corporations established based on corporate-related laws are allowed to have 100% foreign investment, but other agricultural sectors have a foreign investment limit (60%).

Source: Prepared by MHBK's Global Strategic Advisory Dept. based on materials from JETRO

IV-2. Real Estate Regulations

- The Registration Act 1908 provides for the registration of real estate. The Land Revenue Act 1967 provides for land tax, and the Transfer of Property Act 1882 provides for the buying and selling of real estate.

Ownership of Land/ Real Estate

- ✓ Land is divided into state-owned land, private land, and common land for which there is no clear rightsholder in the country or province. There are three types of general possession rights: ownership rights, lease rights, and cultivation rights.
- ✓ Freeholds can be acquired regardless of whether one is an individual or corporation, and it is permitted to possess common land in accordance with customary law.
- ✓ Although registration is required by law, freeholds are often inherited by families and are rarely registered. In addition, the provinces have not adopted a system that centrally manages registration information, and each local bureau adopts a different registration system.
- ✓ However, Islamic law allows the exchange of land in an unregistered condition by oral agreement, so it is difficult to know in detail how much land is actually registered.

Ownership of Foreign Companies

- ✓ Foreign companies are allowed to own land and real estate, and there are no restrictions. However, land purchases require the permission of the Pakistani government. In the case of leasing, the lease term varies depending on the contract. Usually, a lease can be extended with a 50-year contract.
- ✓ It is not necessary to obtain a “No Objection Certification” from the provincial government regarding the location of a project, except in areas that are declared sensitive/security zones.

Foreign Ownership

- ✓ Individual foreigners are not allowed to own land.

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