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Policy Research Institute of Market Economy

آزاد معیشت - خوشحال پاکستان

Prime Buzz

Issue no. 1, 2021
February 13 to 19

Weekly roundup on the business climate and economic development in Pakistan including growth drivers, risk factors and policy signals.



Growth Drivers



Risk Factors



Policy Signals



01

Key Messages

Every Monday, we bring you this independent report on Pakistan's business climate by providing concise comments. The selection of news follows our unique analytical framework which brings together growth drivers, risk factors, and policy signals worth your attention. In 20 minutes, you get a well-rounded review of Pakistan's business outlook.

GROWTH DRIVERS

- Investment Boost – **CPEC** opening borders for investment inflow
- **RDA** meeting its planned potential by bringing in record remittances
- **LSM** industries reviving, growing at the pace of 11.5%
- Innovation - more than 1000 **DFPOs** set up
- Commitment to regional ties sees the light of day
- **Exports & Imports** register pickup in growth post-COVID slump

RISK FACTORS

- **Rule of law index** portraying a dismal picture of Pakistan, raising serious concerns regarding the government's role
- **Fiscal burden** on the rise, 10% increase in debt
- Local frictions and infrastructure inadequacy delaying BRI's central **CPEC** project
- **Innovation dilemma** posing threat to the competitiveness of the domestic industry

POLICY SIGNALS

- **IMF staff agreement**, the road ahead: keeping up with the economic and fiscal commitments
- High Court supports inter-province **mobility of crops**, granting economic freedom
- **Textile industry** at risk, as cotton bale imports from India, are blocked
- Decentralizing the troublesome **electricity market** offers hope



Growth Drivers 02

Growth drivers encompass recent developments that show promising potential for economic and business growth in Pakistan.

-  CPEC has been projected as a game-changer and it has played a role in increasing economic growth in the past. An encouraging development is a declaration by Zhang Baozhong, the chairman of China Overseas Ports Holding Company, that **43 Chinese companies** are ready to invest in the **Special Economic Zone** under CPEC, as phase one has been concluded successfully.
-  The foreign inflow of funds has been strengthened by the development of the **Roshan Digital Account**, as it has led to an inflow exceeding **USD 500 Million** since its launch in September 2020. Overseas Pakistanis have responded well to this government initiative and have played a considerable role in keeping the current account afloat.
-  Investment is directly linked to economic growth and is a must for post-COVID recovery. **Central Development Working Party (CDWP)** has approved two projects worth **Rs. 5 Billion**, encompassing domains of sustainable development and infrastructure.
-  According to the latest report by the Pakistan Bureau of Statistics (PBS), the **Quantum Index of Large Scale Manufacturing Industries (QIM)** has surged by about 11% (December 2020 in comparison to December 2019). Despite the pandemic restrictions, many sectors experienced growth owing to the availability of loans at a lower interest rate.
-  Being digital is a key driver in economic growth. Pakistan Post's initiative of setting up over **1000 DFPOs (digital franchises)** across Pakistan is commendable.
-  Free trade is knitted with economic progress. The first transit consignment to Central Asia was delivered through the **Pakistan-Afghan border** point, marking a new beginning in the facilitation and promotion of **regional trade ties**. The globe trade took a dip in the pandemic crises, as the situation is subsiding, the global economy is aimed towards recovery. Likewise, in Pakistan, the **export sector** is showing an upward trend, at **8.11%** (YoY); complemented by **imports** growing at **14.85%** (YoY). Pakistan needs to be extra vigilant to make most of the global economic recovery through establishing multilateral trade relations, fully embracing the concept of an open economy.



03 Risk Factors

Risk factors are identified threats and pitfalls that can potentially limit and constrain economic and business development in Pakistan.

-  A major impediment to business activities in any country is the state of law and order. Due to the precarious state of law and order in Pakistan, the **Rule of Law Index 2020**, places Pakistan at **120th** rank out of a total of 128 countries. The dismal picture presented by the index speaks volumes about the state's performance in its areas of chief concern and relevance such as order and security, the system of civil justice, the state of fundamental rights, regulatory enforcement, and the absence of corruption.
-  The fiscal burdens on Pakistan's economy are showing no hope of easing down. The increase in COVID relief packages has translated into a 10% increase in debt liabilities.
-  **Belt and Road Initiative (BRI)** is about regional and global connectivity. We reiterate the significance of **CPEC** for Pakistan's economy, at the same time, highlight the constraints which if not removed can severely limit the economic impact of CPEC. Multiple local frictions such as threats from Balochi Nationalists and security issues for Chinese investors; and infrastructure problems such as availability of clean water and basic amenities at Gwadar Port threaten CPEC.
-  In the global trade market, our domestic products compete against foreign products from tech-savvy, and innovation-driven economies. A recent survey conducted, sampling **engineering firms** in four cities of Punjab namely, Lahore, Sialkot, Gujrat, and Gujranwala, brings to light the problem of **low funds** for sustaining profitable **Research and Development (R&D)**. This situation can severely damage the export competitiveness of Pakistani products.



Policy Signals 04

Key policy actions and signals shape the business environment, directly and indirectly affecting all stakeholders.

-  Key policy actions and signals shape the business environment, directly and indirectly affecting all stakeholders. One of the crucial policy signals last week,  was the Staff-Level Agreement with IMF for the release of 500 Million USD. It implies that Pakistan successfully met the fiscal and monetary standards set by IMF and is moving towards economic rehabilitation. Moving forward, the commitment towards structural reforms needs to be maintained, to reach ambitious revenue generation targets and SOE management along with other economic provisions.
-  In the **agriculture sector**, the Lahore High Court's verdict to allow the inter-province sale of crops offers headway towards the economic freedom of farmers. It allows agriculture produce **mobility across provinces**, introduces competition in the domestic market, eventually benefiting both the producers and consumers. In the context of the international market, the same rule, of encouraging mobility across borders, has been ignored.
-  **Textile** is the major export industry of Pakistan and has been suffering from a cotton bale production shortage. Yet, Abdul Razak Dawood, Adviser to Prime Minister on Commerce, has ruled out any change in duties on the **import** of cotton from **India**. The shortfall in cotton bale production coupled with restrictive imports has the potential to severely harm the export of textile products. Open trade has harmed no one and should be advocated despite regional disputes.
-  Talking about the inefficient and debt-ridden **power sector**, National Electricity Policy 2021 (under progress) chalks out to **decentralize** the electricity market in Pakistan, with the aim of reducing the generation and distribution inefficiencies along with the burden of circular debt. If implemented, this can generate competition, bring down prices, and help industrial growth.





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This report keeps CEOs, entrepreneurs, professionals, bankers, investors, diplomats, and other interested individuals and organizations informed and updated about the business climate in Pakistan through concise comments on growth drivers, risk factors, and policy signals. For subscription, please visit this link:

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