



Image credit: Global Village Space



# Prime Buzz

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

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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

- Indo-Pak relations – **Indus Water Treaty** calls for momentary relief from usual animosity
- Chinese largest **automobile manufacture** partners with a Pakistani company
- 2 more **SEZs** to break ground
- **Construction sector** witnesses an influx of investment
- COVID normalizing **digital transactions**

### RISK FACTORS

- **3rd wave** - COVID persists, so do vaccination myths
- Fiscal discipline absent - **External borrowing** rises, **FDI** falls
- Freight rates soar
- Pakistan taking lead in wrong races:
  1. Pakistan occupies 10th rank in world **major arms imports**
  2. Pakistan 2nd most **polluted country**

### POLICY SIGNALS

- **Food Security Ordinance** – enabling more state intervention, a step away from economic freedom and consumer welfare
- **Power Sector** – high time for new workable solutions after a string of tried and failed policies
- **Tax Amendment Bill** sowing disparity rather than leveling the playing field for industries



# Growth Drivers 02

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

-  The animosity between the two neighboring nations of India and Pakistan carries huge economic costs for both countries. Restricted trade, hostile ties, closed borders, and military grudges mark the **Indo-Pak relations**, hindering the immense potential for bilateral economic growth. A momentary relief is upcoming in this regard as **Indus commissioners** of both nations plan to meet in New Delhi on March 23 and 24. The already strained ties suffered after the Indian government revoked Article 370 in Indian Occupied Jammu and Kashmir (IIOJK), in this backdrop the significance of a formal meeting between the two countries has risen.
-  In the automobile sector, the **Automotive Development Policy 2016-2021** set out to provide consumers more choice in the auto industry through other car makers entry into Pakistan's domestic market to end the Big Three's monopoly. In line with this policy and commitment to the CPEC project, Chinese largest and the world's 7th largest automobile manufacturer has not only been allowed entry, but the **Board of Investment (BOI)** is also ready to facilitate its start of operations, in the **Special Economic Zone (SEZ)** of Raiwind. This joint venture between China's SMIL and Pakistan's JW-SEZ (Private) Limited, is estimated to bring in investment worth PKR 663 million in FDI and PKR 637 million in local investment. Further, Pakistan is set to establish two more SEZs to accommodate investment by multi-billion Chinese companies of around USD 5 to 7 billion.
-  Another glad tide in the investment domain is the upcoming partnership of the **construction giants**: China Energy Engineering Company (CEEC) and Zahir Khan Brothers (ZKB) Construction Company. This joint undertaking will result in about USD 2 billion investment in the road infrastructure of Pakistan. This development coupled with the construction scheme announced by the PM will go a long way in boosting Pakistan's infrastructure. Also, **Pakistan's financial institutes** are responding well to the PM's housing scheme, providing further growth stimulus to the construction sector. Pakistan Mortgage Refinance Company (PMRC) along with its Partner Financial Institutions (PFIs) have contributed to the housing finance with **Privately Placed Sukuk** worth PKR 3.1 billion, though this amount is insignificant.
-  COVID has normalized **digital transactions**. Amid lockdowns, people shifted to e-banking transactions. This shift was facilitated by State Bank, as **inter-bank fund transfer (IBFT)** charges were lifted. The last quarter of 2020, saw a growth of 24% in volumes and 22% in value of digital transactions, as 296.7 million e-banking transactions valuing at PKR 21.4 trillion took place. Experts speculate this change is here to stay. Digitization of financial transactions is the new normal.



# 03

## Risk Factors

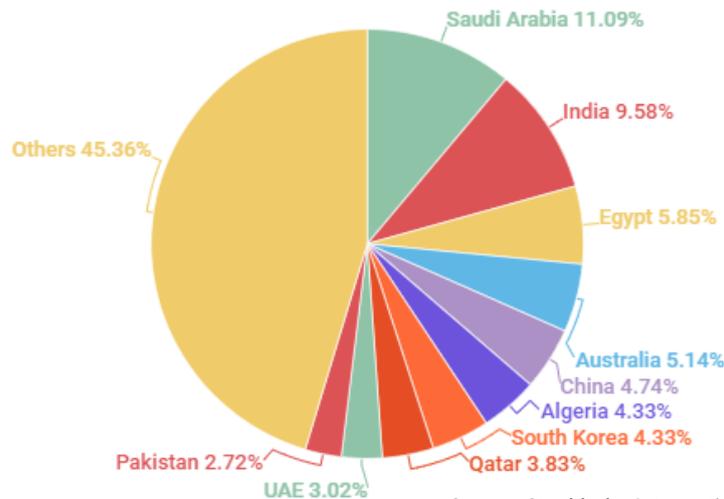
*Risk factors are identified threats and pitfalls that can potentially limit and constrain economic and business development in Pakistan.*

-  The last week has brought much troubling news for the economic and business outlook of Pakistan. Due to the reviving commercial activity in the last month, along with the influx of UK variant cases of **COVID'19**, Pakistan is undergoing the third wave of the deadly coronavirus. The positivity rate of the test has risen to 7.8%. The new wave has led to partial and smart lockdowns across the country. Despite the danger, because of the circulating rumors and myths, 49% of the population is unwilling to be vaccinated. We need to deal with public mistrust and do away with the myths and conspiracy theories to truly set Pakistan on the path of **post-COVID recovery**. Additionally, the spread of COVID needs to be put in check immediately, as the long-term stakes are too high for our economic and business environment.
-  Contrary to the incumbent government's mandate, Pakistan's reliance on **external debts** keeps surging. In just the first eight months of FY21, Pakistan has taken foreign assistance worth USD 7 billion (growth of 12%). The ever-mounting external liabilities seem to be catching up with Pakistan, as USD 1 billion loan from the **United Arab Emirates (UAE)** has matured and Pakistan is attempting at a rollover. Another blow to Pakistan's economy is the dip **Foreign Direct Investment (FDI)** has taken. FDI has fallen to the level of USD 1.30 billion (July-February, FY2021) - a decrease of a considerable 30%.
-  COVID lockdowns are easing down across the globe. The **freight rates** in the international trade market have increased substantially, up to 700%. This coupled with Pakistan's anti-export biases and protectionist policies of high customs, tariffs, and trade barriers have the potential to severely hamper trade.
-  The report by Stockholm International Peace Research Institute (SIPRI) has put Pakistan at the tenth spot in the race of **major arms imports**. Pakistan has a share of 2.72% in the global arms market. For an economically struggling country, this figure is too high. These are resources squeezed out of the taxpayers, which could have been redirected towards alternate developmental expenditures.



# Risk Factors 04

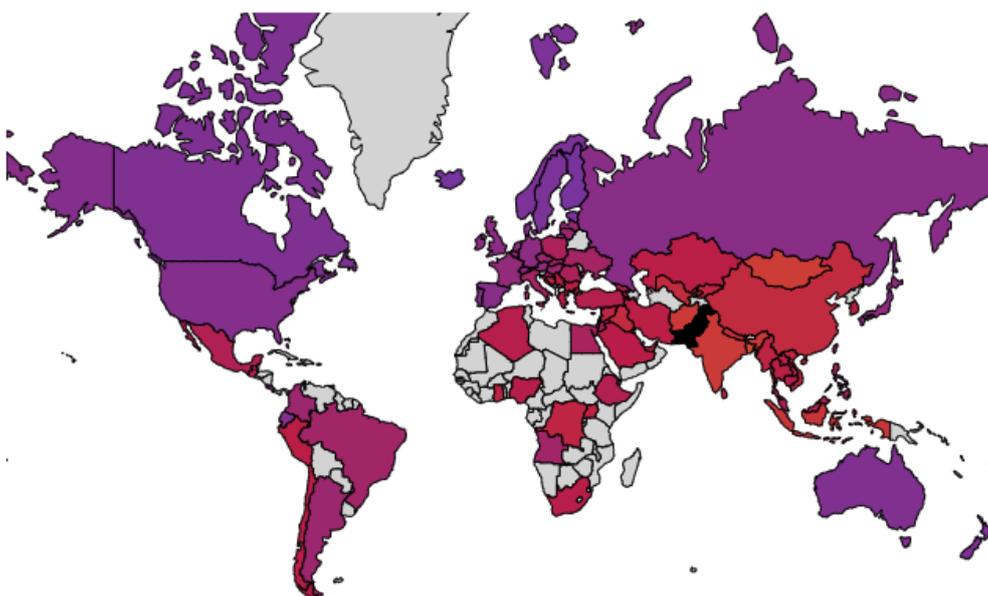
Global share of major arms imports by 10 largest importers, 2016–2020



Source: Stockholm International Peace Research Institute

To add to the on-ground troubles, the air quality of Pakistan is abysmal, the PM2.5 concentrations are 5 times higher than World Health Organization's (WHO) recommended level. Pakistan is among the **most polluted countries** in the world, second only to Bangladesh. The health impacts along with climate change repercussions threaten Pakistan's growth.

Most Polluted Countries 2021



Pakistan

Average PM2.5 ( $\mu\text{g}/\text{m}^3$ ): 65.81



Source: World Population Review

# 05 Policy Signals

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

-  In the face of rising food inflation and food insecurity crises, a draft of the **Pakistan Food Security Flow and Information Ordinance 2021** has been prepared on Prime Minister Imran Khan's instructions. If this ordinance is approved by the President of Pakistan, Arif Alvi, the control of food commodity prices will be shifted under the domain federal government. External force, the federation will set the prices as opposed to the market's own supply and demand dynamics. This ordinance allows the government's undue intervention into the food markets, allowing it to cause disruptions and inefficiencies. Moreover, the ordinance stands on shaky grounds; as, its constitutional viability is questionable.
-  In an attempt to untangle the power sector of its multiple inefficiencies, **Cabinet Committee on Energy (CCOE)** has approved a **circular debt mitigation plan** covering FY21 to FY23. The plan has stuck to the old practices of NEPRA that have yet to prove successful. The proposed hike in power tariff has been approved. The authorities continue to use the tools that have already proved ineffective. It is high time to change tactics if the government wants to curtail power losses and cut down circular debt. The problems of the power sector are multifaceted and must be handled accordingly by establishing a radical and long-term policy plan.
-  Further in the power sector, **Economic Coordination Committee (ECC)** has indicated the move towards a targeted electricity subsidy to the lower socio-economic classes of Pakistan as opposed to the current structure of subsidizing all meters consuming less than 300 units per month. Taking ineligible consumers out of this **subsidy net** will remove some distortion in the electricity pricing.
-  The cabinet passed the draft **Income Tax Amendment Bill, 2021**, which will abolish tax exemptions of up to PKR 140 billion. For instance, some key concessions under the CPEC project will be withdrawn hampering industrial development; whereas, existent loss-incurring Independent Power Producers (IPPs) will continue to avail tax exemptions.





## Prime Buzz

*"Everyday, newspapers, TV channels, portals and social media accounts generate information and comments on Pakistan's economy. The question about the overall direction of our economy remains influenced by what we read and who writes. To help you stay clear of the clutter, Prime Buzz presents you a weekly round up of important news about the business outlook following our daily scanning of a wide spectrum of sources. This is not just aggregation of contents, but a careful selection, with our own short comments. We classify these news as 'growth drivers', 'risk factors' and 'policy signals' and present a cogent summary that you can read in 20 minutes."*

**- PRIME Team**

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