Pakistan

RISK & COMPLIANCE REPORT

Date: January 2017

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Executive Summary - Pakistan	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	Compliance with FATF 40 + 9 Recommendations US Dept of State Money Laundering assessment Supporter of or Safe Haven for International Terrorism Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.)) World Governance Indicators (Average score) Failed States Index (Political)(Average score) International Narcotics Control Majors List
Medium Risk Areas:	Weakness in Government Legislation to combat Money Laundering

Major Investment Areas:

Agriculture - products:

cotton, wheat, rice, sugarcane, fruits, vegetables; milk, beef, mutton, eggs

Industries:

textiles and apparel, food processing, pharmaceuticals, construction materials, paper products, fertilizer, shrimp

Exports - commodities:

textiles (garments, bed linen, cotton cloth, yarn), rice, leather goods, sports goods, chemicals, manufactures, carpets and rugs

Exports - partners:

US 13.3%, China 10.9%, UAE 8.6%, Afghanistan 8.5% (2012)

Imports - commodities:

petroleum, petroleum products, machinery, plastics, transportation equipment, edible oils, paper and paperboard, iron and steel, tea

Imports - partners: China 19.8%, Saudi Arabia 12%, UAE 11.9%, Kuwait 6.2% (2012)
Investment Restrictions: The Government of Pakistan (GOP) policy is to welcome foreign investment and offer some incentives to attract new capital inflows. Despite this openness to foreign direct investment (FDI), FDI stock has declined sharply in Pakistan over the last five years. Analysts attribute this decline to the deteriorating security environment, the chronic energy crisis, a lack of privatization since 2008, and macroeconomic instability. Foreign investors in the services sector may retain 100% equity "for the life of the investment." The minimum allowable equity investment in the non-financial services sector is US$150,000, and 100% repatriation of profits is allowed in the services sector. Investors need to obtain licenses from the Pakistan Telecommunication Authority in order to start a cellular operation network. In the social and infrastructure sectors, 100% foreign ownership is allowed, with a minimum investment requirement of US$300,000. In the agricultural sector, 60% foreign ownership is allowed. Corporate farming is permitted, though only companies incorporated in Pakistan can own land used for this use. The GOP is committed to providing full national treatment and legal protection to foreign investment in all but designated "sensitive" sectors which include defence and broadcasting.

Contents

Section 1 - Background

The Indus Valley civilization, one of the oldest in the world and dating back at least 5,000 years, spread over much of what is presently Pakistan. During the second millennium B.C., remnants of this culture fused with the migrating Indo-Aryan peoples. The area underwent successive invasions in subsequent centuries from the Persians, Greeks, Scythians, Arabs (who brought Islam), Afghans, and Turks. The Mughal Empire flourished in the 16th and 17th centuries; the British came to dominate the region in the 18th century. The separation in 1947 of British India into the Muslim state of Pakistan (with West and East sections) and largely Hindu India was never satisfactorily resolved, and India and Pakistan fought two wars - in 1947-48 and 1965 - over the disputed Kashmir territory. A third war between these countries in 1971 - in which India capitalized on Islamabad's marginalization of Bengalis in Pakistani politics - resulted in East Pakistan becoming the separate nation of Bangladesh. In response to Indian nuclear weapons testing, Pakistan conducted its own tests in 1998. India-Pakistan relations have been rocky since the November 2008 Mumbai attacks, but both countries are taking small steps to put relations back on track. In February 2008, Pakistan held parliamentary elections and in September 2008, after the resignation of former President MUSHARRAF, elected Asif Ali ZARDARI to the presidency. Pakistani government and military leaders are struggling to control domestic insurgents, many of whom are located in the tribal areas adjacent to the border with Afghanistan. In January 2012, Pakistan assumed a non-permanent seat on the UN Security Council for the 2012-13 term.

Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Pakistan is no longer on the FATF List of Countries that have been identified as having strategic AML deficiencies

Latest FATF Statement - 25 February 2015

The FATF welcomes Pakistan's significant progress in improving its AML/CFT regime and notes that Pakistan has established the legal and regulatory framework to meet its commitments in its action plan regarding the strategic deficiencies that the FATF had identified in June 2010. Pakistan is therefore no longer subject to the FATF's monitoring process under its on-going global AML/CFT compliance process. Pakistan will work with APG as it continues to address the full range of AML/CFT issues identified in its mutual evaluation report, in particular, fully implementing UNSC Resolution 1267.

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Pakistan was undertaken by the Financial Action Task Force (FATF) in 2009. According to that Evaluation, Pakistan was deemed Compliant for 6 and Largely Compliant for 8 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for all 6 of the Core Recommendations.

Key Findings from latest Mutual Evaluation Report (2009):

Pakistan has criminalized money laundering (ML) and terrorism financing (TF). Law enforcement authorities still find it difficult to gather evidence for the ML offence without conviction for the predicate offence. Some key predicate offences are missing. A wide range of terrorism financing acts is criminalized. There is no criminalization of the financing of individual terrorists or terrorist organizations, other than proscribed ones. Pakistan can freeze terrorist assets under UNSCR 1267. To implement UNSCR 1373, Pakistan uses a domestic proscription mechanism under the Anti-Terrorism Act 1997 (ATA). Associated freezing mechanisms do not extend to all types of asset. Domestic proscription is limited to certain types of organizations. Law enforcement and prosecution authorities have powers to prosecute ML and TF. They are currently not using these tools.

Pakistan set up its Financial Intelligence Unit (FMU) in December 2007. Pakistan has taken steps to make the FMU operational, but to perform its core functions effectively, the FMU requires more resources and a much higher inflow of STRs.

Pakistan has required its financial sector to adopt anti-money laundering/combating the financing of terrorism (AML/CFT) preventive measures for several years. The preventive measures have recently been expanded in scope (activities and obligations) by SBP, and eventually by SECP in April 2009, outside the review period. More stringent examination and enforcement is needed. Some progress on transparency has been achieved, but access to beneficial ownership of natural and legal persons is not ensured. Steps to implement effective measures to protect NPOs from abuse for terrorism financing purposes need to be further deepened.

Capacity to engage in mutual legal assistance and administrative cooperation is severely impaired for legal and procedural reasons.

The results achieved by the AML/CFT regime are not commensurate with the risks and threats facing Pakistan. To ensure efficient deployment of resources, both in the public and private sectors, and effectiveness, Pakistan should prepare as soon as possible a ML/TF risk-analysis, adopt at the highest level a national AML/CFT strategy and consolidate its institutional framework.

US Department of State Money Laundering assessment (INCSR)

Pakistan was deemed a Jurisdiction of Primary Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived risks

Pakistan is strategically located at the nexus of south, central, and western Asia, with a coastline along the Arabian Sea. Its porous borders with Afghanistan, Iran, and China facilitate the smuggling of narcotics and contraband to overseas markets. The country suffers from financial crimes associated with tax evasion, fraud, corruption, trade in counterfeit goods, contraband smuggling, narcotics trafficking, human smuggling/trafficking, and terrorism. The black market economy generates substantial demand for money laundering and illicit financial services.

Common methods for transferring illicit funds include fraudulent trade invoicing, money service providers, hundi/hawala, and bulk cash smuggling. Criminals utilize import/export firms, front businesses, and the charitable sector to carry out such activities. Pakistan's real estate sector is another common money laundering vehicle, since real estate transactions tend to be poorly documented and cash-based. Pakistan's national savings schemes appear vulnerable to money laundering, and laws providing certain immunities to foreign currency remittance accounts seem to provide an avenue for both money laundering and tax evasion.

Money laundering in Pakistan affects both the formal and informal financial systems. Pakistan does not have firm control of its borders, which facilitates the flow of illicit goods and monies into and out of Pakistan. From January through October 2015, the Pakistani diaspora remitted approximately $16 billion back to Pakistan via the formal banking sector. Though it is illegal to change foreign currency without a license, unlicensed hawala/hundi operators are prevalent throughout Pakistan. Unlicensed hawala /hundi operators are also common throughout the region and are widely used to transfer and launder illicit money. Some support the financing of terrorism. UN-designated groups continue to be able to solicit donations openly without apparent government reaction.

Additionally, the Altaf Khanani money laundering organization (Khanani MLO), a transnational organized crime group, is based in Pakistan. The group facilitates illicit money movement between, among others, Pakistan, the United Arab Emirates (UAE), United States, UK, Canada, and Australia, and is responsible for laundering billions of dollars in organized crime proceeds annually. The Khanani MLO offers money laundering services to a diverse clientele, including Chinese, Colombian, and Mexican organized crime groups and individuals associated with Hizballah and designated terrorist organizations. The Khanani MLO also has been involved in the movement of funds for the Taliban, and Altaf Khanani, the group's leader, is known to have had relationships with Lashkar-e-Tayyiba, Dawood Ibrahim, al-Qaeda, and Jaish-e-Mohammed.

Do financial institutions engage in currency transactions related to international narcotics trafficking that include significant amounts of US currency; currency derived from illegal sales in the U.S.; or illegal drug sales that otherwise significantly affect the U.S.: YES

Criminalization of money laundering:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

Are legal persons covered: criminally: YES ***civilly:*** YES

Know-your-customer (KYC) rules:

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

KYC covered entities: Banks, developmental financial institutions (DFIs), and exchange companies; mutual funds, asset management companies, investment banks, and leasing companies; modarabas—a kind of partnership in Islamic finance, wherein one party provides finance to another party for the purpose of carrying on a business; pension funds, stock exchanges and brokers; insurance and reinsurance companies, insurance brokers, and insurance surveyors

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 1,919: July 2014 - May 2015

Number of CTRs received and time frame: 360,940: July 2014 - May 2015

STR covered entities: Banks, DFIs, exchange companies, mutual funds, asset management companies, investment banks, leasing companies, modarabas, pension funds, stock exchanges and brokers, insurance and reinsurance companies, insurance brokers, and insurance surveyors

money laundering criminal Prosecutions/convictions:

Prosecutions: 2 in 2015

Convictions: 0

Records exchange mechanism:

With U.S.: MLAT: NO ***Other mechanism:*** NO

With other governments/jurisdictions: YES

Pakistan is a member of the Asia/Pacific Group on Money Laundering (APG), a FATF-style regional body.

Enforcement and implementation issues and comments:

Following the December 16, 2014 attack against the Army Public School by Tehrik-i-Taliban Pakistan, in January 2015, Pakistan established its ‘National Action Plan’ (NAP), a National Apex Committee to implement the plan, the National Terrorists Financing Investigation Cell to curb terrorist financing, and an overarching commitment to “choke the finances” of terrorists and terrorist organizations in the country. According to the National Counter Terrorism Authority, provisions of the NAP include obstructing financing for terrorists and terrorist organizations, ensuring against the re-emergence of proscribed organizations, and measures to stop the abuse of internet and social media for terrorism. The Government of Pakistan has taken a wide variety of steps under the auspices of the NAP, and implementation of the plan has yielded mixed results; often due to the lack of institutional capacity and capability, some aspects of the plan have seen minimal progress while others have garnered notable results.

Increasing awareness of, and training for, AML/CFT issues is critical to the judicial and law enforcement sectors. Lack of consistent and uniform implementation will continue to stymie Pakistan’s AML/CFT regime. Pakistan does not fully implement UN sanctions obligations uniformly against all designated parties. Unlicensed hawaladars continue to operate illegally throughout Pakistan, particularly in Peshawar and Karachi; however, Pakistan has reportedly been pursuing illegal hawala/hundi/exchange houses under the NAP. The currency transaction reporting (CTR) threshold was brought down to Rs 2 million (approximately $18,800) from Rs 2.5 million (approximately $23,500) through a Gazette notification issued on January 21, 2015, under the AML Act, 2010.

Pakistani authorities should investigate and prosecute money laundering and terrorism financing in addition to the predicate offense creating the laundered proceeds. The Government of Pakistan should address all cases of terrorist financing; indiscriminately target terrorist and sectarian organizations; resolve remaining legal inadequacies related to the criminalization of money laundering; demonstrate effective regulation over exchange companies; create an assertive and transparent sanctions regime; implement effective controls for cross-border cash transactions; and develop an effective asset forfeiture regime. Pakistan should also design and publicly release metrics that track progress in combating money laundering and terrorism financing, such as the number of financial intelligence reports received by its financial intelligence unit and the annual number of money laundering prosecutions and convictions.

Pakistani law enforcement and customs authorities should address trade-based money laundering and value transfer, particularly as it forms the basis for account-settling between hawaladars. A crack-down on massive trade and customs fraud, including within the framework of the Afghan Transit Trade, would also translate to needed revenue for the Government of Pakistan.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, PAKISTAN does not conform with regard to the following government legislation: -

According to the US State Department, Pakistan does not conform with regard to the following government legislation: -

Record Large Transactions: By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.

System for Identifying/Forfeiting Assets: The jurisdiction has enacted laws authorizing the tracing, freezing, seizure, and forfeiture of assets identified as relating to or generated by money laundering activities.

Arrangements for Asset Sharing: By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

International Transportation of Currency: By law or regulation, the jurisdiction, in cooperation with banks, controls or monitors the flow of currency and monetary

EU White list of Equivalent Jurisdictions

Pakistan is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

Failed States Index

To view Failed States Index Ctrl + Click here

Offshore Financial Centre

Pakistan is not considered to be an Offshore Financial Centre

Key Findings from other US State Department Reports:

Trafficking in Persons

Pakistan is classified a Tier 2 (Watch list)country - A country whose governments does not fully comply with the Trafficking Victims Protection Act's minimum standards, but are making significant efforts to bring themselves into compliance with those standards

Pakistan is a source, transit, and destination country for men, women, and children subjected to forced labor and sex trafficking. A large percentage of trafficking that occurs within the country, particularly of children, is due in part to Pakistan's deteriorating security situation and weak economy. Counterterrorism and counterinsurgency efforts monopolized the Pakistani government's resources and attention. The country's largest human trafficking problem is bonded labor, in which landowners, traffickers, or recruiters exploit an initial debt assumed by a worker as part of the terms of employment, ultimately entrapping other family members and sometimes persisting for generations. Experts estimate that two to four million people are subjected to bonded labor in Pakistan at any given time. Bonded labor is concentrated in the Sindh and Punjab provinces, but also takes place in the Balochistan and Khyber Pakhtunkhwa provinces, in agriculture and brick-making and, to a lesser extent, in the mining and carpet-making industries. In some cases, when bonded laborers attempt to escape or seek legal redress, police return them to their traffickers, who then hold laborers and their families in private jails.

Children as young as 5-years-old are bought, sold, rented, or kidnapped and placed in organized begging rings, domestic servitude, small shops, brick kilns, and prostitution. Some children are intentionally injured by their traffickers: in September 2013, Pakistani police arrested 27 people in Punjab province for kidnapping and mutilating eight children between the ages of five and 10 for forced begging. In February 2014, a poultry farmer discarded two bruised and bloodied boys ages 7 and 9 on the side of a road in Punjab province after they complained of unpaid wages. NGOs report that boys are vulnerable to sex trafficking around hotels, truck stops, bus stations, and shrines. Parents allow illegal labor agents to find work for their children, who are subsequently subjected to exploitative conditions, forced labor, and prostitution. Trafficking experts describe a structured system for forcing women and girls into prostitution, including physical markets in which victims are offered for sale. In June 2013, Pakistani media documented the attempted sale of a 12-year-old girl in a Karachi market. Women and girls are also sold into forced marriages; in some cases their new "husbands" move them across Pakistan's land borders and force them into prostitution in Iran or Afghanistan. In other cases, sometimes organized by extra-judicial courts, girls are used as chattel to settle debts or disputes. Non-state militants kidnap children, buy them from destitute parents, or coerce parents with threats or fraudulent promises into giving their children away; these armed groups force children to spy, fight, or die as suicide bombers in Pakistan and Afghanistan, often through psychological coercion or sexual and physical abuse.

Many Pakistani men and women migrate voluntarily to the Gulf states, Iran, Turkey, South Africa, Uganda, Maldives, Australia, Greece, Spain, and other European countries for low-skilled employment; once abroad, some become victims of labor trafficking. Experts report that Pakistani men are subjected to forced labor in the EU, and Pakistani women are subjected to sex trafficking in the Gulf states. False job offers, especially for women and girls in the United Arab Emirates, and high recruitment fees charged by illegal labor agents or sub-agents of licensed Pakistani overseas employment promoters entrap Pakistanis into sex trafficking and bonded labor. Social media and internet cafes are used for recruiting and blackmailing girls for sex trafficking. There are reports of children subjected to sex trafficking between Iran and Pakistan, and of Pakistani children and adults with disabilities forced to beg in Iran. Pakistan is a destination country for men, women, and children from Afghanistan, Iran, Uzbekistan, Tanzania, and Bangladesh subjected to forced labor. Women from Afghanistan, China, Russia, Nepal, Iran, Bangladesh, Uzbekistan, and Azerbaijan are reportedly subjected to sex trafficking in Pakistan. Refugees from Afghanistan, Bangladesh, and Burma, as well as religious and ethnic minorities, such as Hazaras, are particularly vulnerable to trafficking in Pakistan.

The Government of Pakistan does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government continued to focus on trafficking as a transnational phenomenon, conflating trafficking and smuggling which are separate crimes under international law. While the Pakistani government has a draft anti-trafficking bill that would address gaps in its legislative framework, it did not introduce it in the National Assembly or Senate. The government reportedly rescued 1,871 bonded labor victims in 2013 and worked with international organizations on several training initiatives, but did not show progress in convicting trafficking offenders; therefore, Pakistan is placed on Tier 2 Watch List. In the 22 years since the Bonded Labor System (Abolition) Act (BLSA) was enacted, Pakistani officials have yet to secure a conviction under the law. The government also regularly arrested victims, including child sex trafficking victims, for crimes they were compelled to commit as a result of trafficking, including prostitution. The Pakistani government's efforts to fight trafficking were impaired by systemic corruption. During the reporting period, Pakistani media highlighted the Federal Investigative Agency's (FIA) involvement in human trafficking, causing experts to question the FIA's commitment to combating this crime. The absence of federal laws to address internal human trafficking and the poor implementation of existing laws also hampered Pakistan's anti-trafficking efforts. Government officials continued to demonstrate a lack of political will, acting to address trafficking only when pressured to do so by media and activists.

Narcotics - 2016 (introduction):

Pakistan is one of the world's top transit corridors for opiates and cannabis, which are pervasively trafficked through the country's porous borders with Afghanistan and Iran. Illicit narcotics are then distributed globally through Pakistan's seaports, airports, postal services, and unpatrolled coastal areas. The United Nations Office on Drugs and Crime (UNODC) estimates that 40 percent of the drugs (opium, heroin, and cannabis) produced in Afghanistan enter Pakistan, some for domestic consumption and the rest for transit to international markets, including China, the Gulf States, Africa, and Europe. Additionally, poppy cultivation levels in some areas of Pakistan have risen from previous years. Pakistan is also a major transit country for precursor chemicals used in the production of heroin and methamphetamines.

In 2015, Pakistan made multiple noteworthy seizures and carried out several anti-drug awareness activities. Pakistan's law enforcement agencies also arrested over 90 traffickers designated as priority targets by the U.S. Drug Enforcement Administration (DEA). Pakistan's Anti-Narcotics Force (ANF), the country's lead counternarcotics agency, reported that in 2015 it seized approximately 12.16 metric tons (MT) of heroin, 50.15 MT of opium, 30 kilograms (kg) of cocaine, and 133.64 MT of hashish. Overall 2015 seizures represent a 30 percent increase over 2014, with the most significant change being in cocaine seizures, which increased by 329 percent. However, the Government of Pakistan's limited budget and the law enforcement's preoccupation with more urgent threats to national security, such as violent extremism, continue to hinder the country's drug control efforts.

Domestic drug consumption is a growing problem. According to a 2013 UNODC nationwide survey, Pakistan is home to 6.7 million drug users who consume 59 MT of opiate and cannabis products annually. Pakistan lacks the capacity to properly treat those with substance use disorders and educate its people about the dangers of illicit narcotics.

Corruption

Corruption remains a major challenge to the justice system and the effectiveness of law enforcement. Despite parliamentary oversight committees, an independent judicial system, and a critical free press that exposed corrupt practices in 2015, low conviction rates continue. Accordingly, corruption continues to facilitate the movement of contraband, including in the form of bribes to public servants. Still, there have been a few encouraging signs, such as when the Narcotics Control Division (NCD) discovered that members of their staff had embezzled funds in 2014. NCD referred the case to the Federal Investigative Authority and subsequently suspended the responsible employees, though one employee has since been reinstated.

Terrorist Financing 2016:

Pakistan is currently identified by the US Secretary of State as a Safe Haven for International Terrorism

Overview: Pakistan remained a critical counterterrorism partner in 2015. Numerous violent extremist groups, many of which target Pakistani civilians, officials, or members of other religious sects, operated in the country. In 2015, terrorists used both stationary and vehicle-borne remote-controlled IEDs (VBIEDs); suicide bombings; targeted assassinations; rocket-propelled grenades; and other combat tactics to attack individuals, schools, markets, government institutions, mosques, and other places of worship. Attacks by sectarian groups against minorities continued. Despite the government's massive security preparations, its interception of numerous planned attacks, and the prevention of attacks in major urban areas, the commemoration of the Ashura holiday during the Islamic month of Muharram (October 2015) was marked by two major attacks that killed at least 30 people.

In November, the Pakistan Electronic Media Regulatory Agency (PEMRA) reportedly banned media coverage of U.S.- and UN-designated terrorist organizations such as Jamaat-u-Dawa (JuD) and the Falah-e-Insaniyat Foundation (FiF), both of which are aliases of Lashkar-e-Tayyiba (LeT), but the government did not otherwise constrain those groups' fundraising activities. Pakistan took steps to support political reconciliation between the Afghan government and the Afghan Taliban, but it did not take sufficient action to constrain the ability of the Taliban and the Haqqani Network (HQN) to threaten U.S. and Afghan interests in Afghanistan.

Pakistan officially designated the Islamic State of Iraq and the Levant (ISIL) as a terrorist organization on July 15. Senior military officials and provincial security forces publicly warned of scattered Pakistani terrorist allegiance to ISIL and its threat to Pakistani military targets. Law enforcement agencies arrested individuals suspected of participating in ISIL-allied attacks, disseminating ISIL propaganda, and having declared allegiance to ISIL. Pakistan did not join the multilateral Global Coalition to Counter ISIL, but Pakistani officials participated in a senior level meeting of the coalition in September.

Following the Tehrik-e-Taliban Pakistan's (TTP) December 16, 2014 attack on the Army Public School in Peshawar in which more than 150 children and staff were killed, the government formed a committee of political, military, and intelligence representatives to produce a 20-point, whole-of-government National Action Plan (NAP) against terrorism. The NAP is a mixture of judicial, law enforcement, military, and administrative goals that seek to punish established terrorists, eliminate support for terrorism, and promote the non-violent coexistence of the country's various religious sects, all to prevent future terrorist attacks on Pakistani soil. The NAP is not, in and of itself, legally binding; each component depends on existing, revised, or new legislation. The government did not formally articulate the metrics by which it measured the NAP's overall success. Most official assessments of its implementation reached the public via the media. These media reports most often followed closed door meetings of senior federal or provincial civilian and military leadership. The Minister of Interior briefed the Pakistani National Assembly on NAP implementation progress on December 17 and 18. The Minister cited a statistical reduction in terrorist attacks over 2015, but acknowledged that terrorism had not been completely eliminated from the country. Throughout 2015, the media frequently reported parliamentary criticism of the government's NAP implementation progress, as well as accusations of blame from within the federal government and the Pakistani military for implementation shortcomings. Also throughout 2015, the Pakistani military continued ground and air operations in North Waziristan and Khyber Agency to eliminate terrorist safe havens and recover illegal weapons caches. Paramilitary and civilian security force counterterrorism efforts included countering terrorism in urban areas and conducting preemptive raids to arrest suspected terrorists or interrupt terrorist plots, and confronting terrorists that attacked Pakistani civilians, law enforcement agencies, and military and paramilitary troops.

2015 Terrorist Incidents: Terrorist attacks occurred in every month of 2015. A few representative examples include:

- On January 30, a suicide bomber attacked a Shia mosque in the northern Sindh district of Shikarpur. According to Dunya News, at least 61 people were killed and provincial government officials claimed that suspects arrested in the case were affiliated with the Jaish-e-Mohammed and Lashkar-e-Jhangvi terrorist groups.

- On March 15, suicide bombers struck two churches in Lahore's majority-Christian Youhanabad neighborhood, killing 17 people according to government figures reported in the media. Following the attack, a mob killed two bystanders whom they believed to have been involved in the bombing.

- On April 16, private U.S. citizen Deborah Lobo was shot on her way to work in Karachi. According to unnamed authorities quoted in the media, authorities found ISIL leaflets at the attack scene.

- On May 13, eight gunmen attacked a bus traveling in Safoora Goth, Karachi. The shooting left at least 46 Ismaili Shia dead. Media reported that the attackers were allegedly ISIL adherents.

- Attacks against Hazaras in Quetta, Balochistan remained common. For example, according to the South Asia Terrorism Portal, five Hazaras were killed when unidentified gunmen opened fire on them on a Quetta street on June 7.

- On August 16, a suicide bomber killed 17 people, including Punjab provincial Home Secretary Shuja Khanzada in Attock (near Lahore), and injured at least 23 others. According to media, multiple violent sectarian groups claimed responsibility.

- On September 18, a group of armed terrorists entered Pakistan's Badaber Air Base (outside of Peshawar) and killed at least 29 civilians and military personnel, including an Army captain. Media reported that TTP claimed responsibility.

- On October 24, a suicide bomber killed approximately 22 people, and injured at least 40 more Shia Muslim worshippers commemorating the anniversary of the death of Imam Hussain during the Ashura period of the Islamic Month of Muharram in Jacobabad (Sindh). A second suicide bomber killed approximately 10 people, and injured 12 more, in an attack on a Shia mosque on October 22 in Bolan (Balochistan). Media reported that violent anti-Shia terrorist group Lashkar-e-Jhangvi claimed responsibility for both attacks.

- On December 29, a vehicle-borne IED attack orchestrated by TTP splinter group Jamaat-ur-Ahrar killed at least 26 people and injured more than 50 at a federal government office in Mardan, Khyber Pakhtunkhwa province.

Legislation, Law Enforcement, and Border Security: Pakistan continued to implement the Anti-Terrorism Act (ATA) of 1997, and other laws, which empowered the government to counter terrorism with enhanced law enforcement and prosecutorial powers. The country is in various stages of implementation of the National Counterterrorism Authority Act, the 2013 Investigation for Fair Trial Act, the 2014 amendments to the ATA, and the 2014 Protection of Pakistan Act (PPA). The PPA has a sunset clause of July 2016. The government continued to make use of reinforced counterterrorism legislation. However, the judiciary moved slowly in processing terrorism and other criminal cases, likely due in part to the overly broad definition of terrorism offenses listed in the ATA. The majority of courts face long backlogs. In addition, law enforcement personnel and judicial officers involved in terrorism cases can face threats and intimidation from terrorist groups. In some provinces, Anti-Terrorism Courts have introduced reforms to reduce the backlogs, including transferring "non-true" terrorism cases to the regular District and Sessions courts, freeing the courts to conduct continuous trials within the timeframe required by the ATA.

The PPA, passed in July of 2014, sought to create a specialized system for adjudicating terrorism cases by establishing a federally empowered infrastructure with special federal courts, prosecutors, police stations, and investigation teams for the enforcement of 20 specially-delineated categories of offenses. Human rights advocates and other legal experts criticized the PPA for provisions granting broad immunity to security forces in the use of lethal force, expanding the power of arrest without a warrant, and eliminating the presumption of innocence. The provisions of the PPA, including the creation of new judicial infrastructure, have been only sporadically implemented in 2015 and the Act is set to expire in July 2016.

In response to the December 2014 Army Public School attack, Pakistan promulgated new legislation in 2015 designed to enable the prompt prosecution and adjudication of terrorism offenses. In January, the Assembly passed the 21st Amendment of the Pakistani Constitution and amended the Pakistan Army Act to allow military courts to try civilians for "offenses relating to terrorism, waging of war or insurrection against Pakistan, and prevention of acts threatening the security of Pakistan by any terrorist group using the name of religion or a sect and members of such armed groups, wings, and militia." In February, the government issued a presidential ordinance that amended the Pakistan Army Act to allow military courts to hold in-camera trials of terrorism suspects and to conceal the names of court officials involved in those trials, as part of a move toward "faceless justice" for "the protection of witnesses, defending officers, and other persons concerned in court proceedings." The National Assembly subsequently passed a bill codifying this presidential ordinance in November. After a series of legal challenges, the Supreme Court upheld the constitutionality of the 21st Amendment in August. Both the 21st Amendment and the Amendment to the Pakistan Army Act contain sunset clauses, which provide for their expiration two years from the date of enactment.

At the federal level, Pakistan's law enforcement and national security structures need improvement. Although the various security agencies attempted to detect, deter, and respond to terrorist incidents, the government's institutional framework is not conducive to interagency cooperation and coordination. There was only sporadic interagency information sharing, no comprehensive integrated database capability, and specialized law enforcement units lacked the technical equipment and training needed to implement the enhanced investigative powers provided in the 2012 Investigation for Fair Trial Act. Prosecutors have a limited role during the investigation phases of terrorism cases. Jurisdictional divisions among and between military and civilian security agencies continued to hamper effective investigation and prosecution of terrorism cases. Intimidation by terrorists against witnesses, police, victims, prosecutors, defense lawyers, and judges, as well as insufficient evidence gathering in investigations, contributed to the high acquittal rate in cases filed in the Anti-Terrorism Courts.

Devolution of law enforcement authority to the provincial level resulted in mixed assessments of law enforcement cooperation across the country. Counterterrorism operations were most often the result of varying degrees of cooperation between provincial Counterterrorism

Departments (which reported to their respective Inspectors General for Police), assorted paramilitary entities (e.g., Frontier Corps, Rangers, Levies, etc.), the Pakistani military, and intelligence agencies. Some provinces demonstrated greater training, equipment, and interagency information sharing to find suspected terrorists, but needed improvement in their prosecution of suspected terrorists once apprehended. For others, the reverse applied. In Sindh, a "law-and-order" operation against terrorists and organized crime syndicates, carried out by the paramilitary Sindh Rangers and the civilian Sindh Police, continued throughout 2015. Many analysts attributed to that operation the significant reduction in violence over 2015 that the provincial capital has witnessed. Media reported allegations that operations focused disproportionately on certain political parties with a political rather than counterterrorism focus. The government denied those allegations. In December, the Sindh provincial government extended the mandate of the Sindh Rangers for 60 days, but the limits of their authority remain under discussion between the federal and provincial government.

Pakistan continued to work toward structural reforms on counterterrorism designed to centralize coordination and information sharing. The National Counterterrorism Authority (NACTA) received new leadership in August. Its new National Coordinator was concurrently the Director General of the National Police Bureau at the end of 2015. In November, NACTA was reportedly allocated an operational budget with which to hire additional staff for the first time since the NAP called for the organization to be "strengthened and activated." The Intelligence Bureau has nationwide jurisdiction as a civilian agency, is empowered to coordinate with provincial and territorial counterterrorism units, and seemed to take a more active role in counterterrorism operations throughout 2015. The Inter-Services Intelligence Directorate has broad intelligence powers and fulfilled a de facto border security role along with tribal militias, provincial police, and the Frontier Corps. The Ministry of Interior has more than 10 law enforcement-related entities under its administration, though many of those agencies are under the operational control of the military.

Pakistan collected biometric information in national databases and screened travelers at border land crossings with its International Border Management Security System. The National Automated Database Registration Authority maintained a national biometric database of citizens, residents, and overseas Pakistanis, and is continually subject to upgrades. Pakistan's ability to detect and deter cross-border smuggling via air travel continued to pose a challenge, but also continued to improve as a result of regional and international training. The Federal Board of Revenue's Customs Service attempted to enforce anti-money laundering laws and foreign exchange regulations at all major airports with some coordination with the Airport Security Force and/or the Federal Investigation Agency. Pakistan's cross-border enforcement can be further improved through advanced passenger targeting strategies, improved scanning equipment, more effective officer accountability practices, additional staff, improved interagency coordination at the airports, and enforcement of existing legislation. Pakistan Customs' End Use Verification project facilitated the entry of dual-use chemicals for legitimate purposes, while also investigating and preventing the entry of chemicals intended for use in IEDs. In 2015, the U.S. government had little visibility into the results of the project, and was thus unable to gauge its effectiveness.

The military continued to conduct significant counterterrorism operations in North Waziristan and Khyber agencies in the tribal areas, and a combination of military, paramilitary, and civilian forces conducted operations in Sindh, Balochistan, Khyber Pakhtunkhwa, and Punjab.

Security forces intercepted large stockpiles of weapons and explosives, and discovered bomb-making facilities and sophisticated telecommunication networks. Pakistan continued to arrest terrorists and initiate prosecutions throughout 2015. However, the enhanced tools provided by the Investigation for Fair Trial Act of 2012 and the NACTA law were still in the process of being implemented by the government at year's end. These laws are designed to equip intelligence agencies, law enforcement agencies, and prosecutors with the necessary legal tools to detect, disrupt, and dismantle terrorist activities and organizations. The U.S. government had limited visibility into the NACTA law's implementation.

Anti-Terrorism Courts had limited procedures for obtaining or admitting foreign evidence. The trial of seven suspects accused in the 2008 Mumbai terrorist attack was ongoing at year's end, with many witnesses for the prosecution remaining to be called by the court. Security concerns and procedural issues resulted in a slow pace of trial proceedings. In December 2014, the court granted bail to the lead defendant, alleged Mumbai attack planner and LeT operational commander Zaki-ur Rehman Lakhvi. Lakhvi was released from prison on bail in April 2015 and the Government of Pakistan reports he remained under house arrest at the end of 2015.

Pakistan's cooperation with the United States on information sharing and law enforcement continued. Law enforcement cooperation continued with respect to terrorist attacks and plots against U.S. personnel, and the Embassy and Consulates General in Lahore, Karachi, and Peshawar. Pakistani law-enforcement officials pledged to assist in the apprehension of U.S. citizen fugitives in Pakistan, but practical implementation of this pledge has been lacking. Delays in obtaining Pakistani visas for training personnel were obstacles to counterterrorism assistance for security forces and prosecutors in 2015, though a limited number of visas of varying duration were eventually approved for some Department of State Antiterrorism Assistance program instructors to facilitate delivery of a number of ATA courses. However, other agency trainings were required to take place in third countries due to non-issuances of visas.

Countering the Financing of Terrorism: Pakistan is an active member of the Asia Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF)-style regional body. In February, FATF removed Pakistan from its anti-money laundering/countering the financing of terrorism review process due to progress made addressing the strategic deficiencies that had been identified in 2010. Despite this action, Pakistan was required to provide a report in June detailing recent action to identify and freeze property of UN-listed entities as well as efforts to monitor the non-profit organization sector, money remitters, and cross-border activity. This report was submitted on time; FATF recommended further reporting to the APG. As the release from FATF monitoring indicated, Pakistan's criminalization of terrorist financing met international standards.

The NAP conveys the government's intention to cut the financial sources of terrorists and terrorist organizations. *Hundi/hawala* offenses under the pre-existing Foreign Exchange Regulation Act of 1947 were designated as predicate offences under the Anti-Money Laundering Act (AMLA) of 2010. In January 2015, the government lowered the threshold for currency transaction reports from US $25,000 to approximately US $20,000.

Despite military and police action against certain UN-designated organizations, throughout 2015 other UN-designated organizations continued to operate within Pakistan, employing economic resources under their control, and fundraising openly. The November PEMRA ban of electronic media coverage of domestically banned organizations and UN-designated organizations may reduce the public profiles of those organizations and reduce their ability to collect donations.

Money transfer systems persisted throughout much of Pakistan, especially along Pakistan's long border with Afghanistan, and may be abused by drug traffickers and terrorist financiers operating in the cross-border area.

While Pakistani authorities did report having frozen assets of UN-designated entities during 2015, the amount was unclear. The U.S. government was not informed of any successful terrorism financing prosecutions in 2015.

According to the State Bank of Pakistan, banks and reporting entities were under legal obligation to report suspicious transaction reports wherever there is suspicion that NGOs/non-profit organizations (NPOs)/charities may be abusing the financial system for the financing of terrorism or any other criminal activity. From July 2014 to May 2015, Pakistan reportedly received 1919 Suspicious Transaction Reports, of which 855 were analyzed and 320 disseminated. The State Bank of Pakistan prescribed specific regulations for the opening of bank accounts by NGOs, non-profit organizations, and charities.

The Minister of Interior provided a list of 61 designated organizations in his December 18 brief to the Pakistani National Assembly, which various media outlets reported. Until that point, the government had only distributed updates to lists of individuals and groups designated pursuant to UNSCRs and domestic law via gazette notices ('statutory regulatory orders' and circulars). The sole use of that vehicle resulted in significant confusion and speculation among the public regarding which entities were and were not designated and/or under observation. According to the State Bank of Pakistan, banks were required to regularly access the Consolidated Lists from the pertinent UN website(s) to ensure compliance with sanctions regimes throughout 2015.

Countering Violent Extremism: The Ministry of Information and Broadcasting and the military's Inter-Services Public Relations employed strategic communications strategies to build support for the military's counterterrorism initiatives. Reintegration of de-radicalized terrorists into society remained a priority for the government. Throughout 2015, the government operated a number of de-radicalization camps in different parts of the country. The camps reportedly offered corrective religious education, vocational training, counseling and therapy, and a discussion module that addressed social issues and included sessions with the students' families. A Pakistani NGO continued to administer the widely lauded Sabaoon Rehabilitation Center in Swat Valley, which was founded in partnership with the Pakistani military and focused on the de-radicalization of juvenile violent extremists.

In February 2015, Pakistan's Minister of Interior attended the White House Summit on Countering Violent Extremism. Pakistan remained actively engaged with the process and attended regional summits on CVE held in Sydney, Australia (June 11-12); Astana, Kazakhstan (June 29-30), and Algiers, Algeria (July 22-23) at the ambassadorial level. It participated in the Senior Officials' Check-in Meeting on CVE held in Rome on July 29. The Special Assistant to the Prime Minister on Foreign Affairs represented Pakistan at the Leaders' Summit on

Countering ISIL and Violent Extremism, which was hosted by President Obama and convened on the margins of the UNGA in September.

International and Regional Cooperation: Pakistan participated in counterterrorism efforts in both regional and international forums. Pakistan participated in South Asian Association for Regional Cooperation meetings on counterterrorism and in other multilateral groups where counterterrorism cooperation was discussed, including the Shanghai Cooperation Organization (as an observer), and Heart of Asia-Istanbul Process.

As a member of the Global Counterterrorism Forum (GCTF), Pakistan participated in GCTF meetings and supported GCTF initiatives. Pakistan participated in UNSC meetings on sanctions and counterterrorism and in a UN Counterterrorism Committee's Executive Directorate regional workshop for South Asian judges, prosecutors, and investigators in Thailand in October. Pakistan also attended the Special Meeting of the Counter-Terrorism Committee on "Stemming the Flow of Foreign Terrorist Fighters" held in Madrid, Spain in July. In collaboration with the UN Counter-Terrorism Implementation Task Force, the Government of Pakistan organized a Needs Assessment Conference on Youth Engagement, Skills Development, and Employment Facilitation in Pakistan on May 13-14.

International Sanctions

Pakistan is not currently subject to any International Sanctions

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	32
World Governance Indicator – Control of Corruption	24

US State Department

Corruption remains widespread in Pakistan, especially in the areas of government procurement, international contracts, and taxation. Giving and accepting bribes are criminal acts punishable by confiscation of property, imprisonment, recovery of ill-gotten gains, dismissal from governmental service, and reduction in governmental rank. In 2013, Pakistan ranked 127 in the Transparency International Corruption Perceptions Index.

Pakistani law provides for criminal penalties for official corruption; however, implementation of the law is ineffective, and officials frequently engage in corrupt practices with impunity. The National Accountability Bureau (NAB), organized under the 1999 National Accountability Ordinance, serves as the highest-level anti-corruption organization, with a mandate to eliminate corruption through awareness, prevention, and enforcement. Initially focusing its efforts on well-known politicians and government officials guilty of gross abuses of power and stealing public funds, the NAB refocused its strategy in 2002 after citizens and human rights groups accused the agency of being a political tool for the detention of former officials and party leaders, as well as serving as a means to deviate from the normal justice system. The NAB struggles with poor funding and limited staffing.

The Competition Commission of Pakistan seeks to prohibit corrupt activities, such as collusive practices, abuse of market dominance, and deceptive marketing. Despite dynamic leadership, active community engagement, and lower-level court decisions against businesses engaged in anticompetitive activities, the Competition Commission is hindered by insufficient government funding and slow progress of its cases in the judicial court of appeals. Corruption is pervasive in politics and government, and various politicians and public office holders have faced allegations of corruption, including bribery, extortion, cronyism, nepotism, patronage, graft, and embezzlement.

A 2007 National Reconciliation Ordinance (NRO), promulgated under former president Pervez Musharraf, provided an amnesty mechanism for public officials who were accused of corruption, embezzlement, money laundering, murder, and terrorism between January 1, 1986, and October 12, 1999. In December 2009, the Supreme Court declared the NRO null and void, and reopened all 8,000 cases against those who had received amnesty, including the president, ministers, and parliamentarians. The Supreme Court decisions about the beneficiaries of NRO are still pending implementation.

Corruption within the lower levels of the police and customs officials is common. Transparency International notes that the major cause of corruption was lack of accountability and enforcement of penalties, followed by lack of merit and low salaries. According to a survey, some police charge fees to register genuine complaints and accept money for registering false complaints. Bribes to avoid charges are commonplace. Critics charge that the appointment of station house officers (SHOs) is politicized.

Widespread allegations of corruption plagued the government's rental power plant projects (RPP), which were a priority in 2008-2009 to address the country's acute energy shortage. Citizens and parliamentarians accused government officials of providing financial kickbacks and awarding extravagantly priced rental power plants to their close acquaintances. In December 2010 and January 2011, the Supreme Court found two power companies guilty of receiving more than 970 million rupees (then $11.2 million) in advance payments to provide electricity but failing to commence commercial operations by the agreed date. The court ordered both companies to return the funds advanced, and the government abandoned the RPP power project as a policy priority. The Supreme Court of Pakistan gave a decision against RPPs on March 30, 2012 declaring their contracts null and void and their intentions as mala fide. Currently the National Accountability Bureau is investigating the RPP case.

Anecdotal reports persist about corruption in the district and sessions courts, including reports of small-scale facilitation payments requested by court staff. Lower-court judges lack the requisite independence and sometimes are pressured by superior court judges as to how to decide a case. Lower courts remain corrupt, inefficient, and subject to pressure from prominent wealthy, religious, and political figures. Government involvement in judicial appointments increases the government's control over the court system.

The 2002 Freedom of Information Ordinance allows any citizen access to public records held by a public body of the federal government, including ministries, departments, boards, councils, courts, and tribunals. It does not apply to government-owned corporations or provincial governments. The bodies must respond to requests for access within 21 days. Certain records are restricted from public access, including classified documents, those that would be harmful to a law enforcement case or an individual, or those that would cause grave and significant damage to the economy or the interests of the nation. NGOs criticized the ordinance for having too many exempt categories and for not encouraging proactive disclosure.

Pakistan is not a signatory to the OECD Convention on Combating Bribery, but it is a signatory to the Asian Development Bank/OECD Anti-Corruption Initiative. Pakistan has also ratified the UN Convention against corruption.

Corruption and Government Transparency - Report by Global Security

The most recent elections took place July 2013, with the Muslim League (PML-N) defeating the Pakistan People's Party (PPP) to become the ruling party. Mamnoon Hussain, a veteran Pakistani politician from the PML-N, was elected the president and will officially take over the government 9 September 2013. Nawaz Sharif has also been elected as the prime minister. According to the Guardian in July 2013, Hussain has been an active member of the PML-N since the 1960s, but resigned his membership from the party soon after the election. This symbolic move indicates Hussain's will attempt to establish himself as a non-partisan president.

The administration in Pakistan faces huge challenges in rebuilding the country's stability and the confidence of foreign investors, as well as in fighting Pakistan's endemic levels of corruption, which according to Freedom House 2013, is widespread in politics and government. The US Department of State 2013 also emphasises that corruption is pervasive among government officials and that various public office holders face allegations of corruption, including bribery, extortion, cronyism, nepotism, patronage, graft, and embezzlement. Corruption involving high ranking officials, including President Zardari, who previously served 11 years in prison on corruption and murder charges, despite never being convicted and all charges eventually being dropped, as reported in a 30 July 2013 news article by Dawn. According to the US Department of State 2012, the Supreme Court annulled the National Reconciliation Ordinance, which provided President Zardari and several thousands of public officials with immunity, so that corruption charges could again be opened against leaders in the Zardari government. A month later, January 2010, the Zardari government filed a petition challenging the court's 2009 decision and requesting its review, yet the Supreme Court dismissed the government's review petition, upholding its earlier decision. Subsequently, the country’s anti-corruption agency has made a request to Switzerland to re-open a money-laundering case against President Zardari. However, according to a December 2011 article by Pakistan Today, the government decided not to dispatch a letter to the Swiss authorities, as President Zardari enjoys indemnity under Article 248 of the Constitution. However, the Independent reported in September 2012 that Zardari is likely to face charge from the Pakistan court after he has finished his presidency. The same report states that the Swiss authority is unable to reopen the case against Zardari due to the fact that no new evidence has been found and the case has expired, as Zadari's offences took place more than 15 years ago. According to the Bertelsmann Foundation 2012, corruption charges are used by local governments and intelligence agencies to intimidate, blackmail, or to neutralise political opponents. However, awareness of the value of holding politicians to account is strong, and corrupt officeholders have received negative publicity. As a result, it has been possible to prevent the re-election of some politicians with a reputation for being corrupt.

A lack of political will, coupled with the perceived co-option of the judiciary and the arbitrariness of many anti-corruption proceedings, pose a major obstacle in the fight against corruption. According to the Transparency International Global Corruption Barometer 2013, political parties are perceived as the third most corrupt institution in Pakistan. Transparency International National Corruption Perception Survey 2010 explains in the article that the country has lost PKR 1,100 billion to corruption in 2011, compared to PKR 825 billion in 2010 and PKR 450 billion in 2009. The organisation further notes that there has been no check on corruption, as the anti-corruption institutions, the National Accountability Bureau and the Federal Investigation Agency, have sometimes sided with the corrupt by distorting and manipulating evidence in favour of the accused. This development is further emphasised in Transparency International Global Corruption Barometer 2013, according to which, 69% of households surveyed consider the current government’s efforts in the fight against corruption to be ‘ineffective’ and ‘very ineffective’. Furthermore, 72% of household respondents perceive the level of corruption in Pakistan to have increased in the past two years

Business and Corruption

According to June 2013 new articles published by Dawn and rfi, the new government of Pakistan led by President Mamnoon Hussain and Prime Minister Nawaz Sharif has promised to tackle rampant corruption in the country. Fighting corruption, continuing economic reform, and improving infrastructure, including the electric supply, are among the top political priorities of the new government.

As corruption is omnipresent in Pakistan, business is seriously impeded by it. According to the World Economic Forum Global Competitiveness Report 2012-2013, in which companies point to corruption as the most problematic factor for doing business in the country, after government instability. Business executives surveyed by the same source report that public funds are also regularly diverted to companies, individuals, or groups due to corruption. Companies should also note that, land administration is perceived as the most corrupt institution followed by police in the Transparency International Pakistan National Corruption Perception Survey 2011. Companies involved in import-export activities are affected by tax corruption, according to the US Commercial Service 2011. The same survey reports that foreign investors often use local agents in order to facilitate distribution and to provide market intelligence. Furthermore, investors are legally liable for the corrupt behaviour of agents acting on their behalf, and therefore, companies are generally advised to develop, implement, and strengthen integrity systems and to carry out extensive due diligence prior to committing funds and when already doing business in the country.

Pakistan's military engages in corruption in relation to defence procurement, as well as other sectors of the economy, including among others land, construction, property, and banking, as reported in Transparency International Global Corruption Report 2008. The same source also reports that the military controls an enormous private business empire. The Defence Housing Authority, the five main military foundations, and the thousands of small and large companies that they control benefit from hidden subsidies from a national budget controlled by their ultimate beneficiary—the military elite—and can plead national interest as a way of justifying their activities. According to the Transparency International Global Corruption Report 2009, corruption in the privatisation in Pakistan is endemic and manipulation of the process can be found at all stages. A case in point is the privatisation of Pakistan Steel Mills (PSM), which was sold by General Musharraf to a consortium for PKR 21.58 billion, when it was estimated to be worth PKR 72 billion. The Supreme Court ruled against this privatisation, citing disregard for the mandatory rules and information necessary for arriving at a fair sale price. Therefore, companies are recommended to use a specialised public procurement due diligence tool in order to reduce corruption risks related to public procurement in Pakistan

Regulatory Environment

Although steps towards establishing a more efficient business environment have been taken, operating a business can be a cumbersome and slow affair in Pakistan. According to the World Economic Forum Global Competitiveness Report 2012-2013, business executives identify corruption as the most problematic factor for doing business in Pakistan, while inefficient government bureaucracy is the second most problematic. Furthermore, the same report assesses the burden of government regulations, transparency of government policy-making, and policy stability as a 'competitive disadvantage' for doing business in the country. In an effort to curb corruption and excessive red tape, Pakistan is attempting to eliminate several bureaucratic measures. For example, the government has introduced a simple 5% customs duty on imported machineries for the manufacturing sector. Furthermore, according to the World Bank & IFC Doing Business 2011, the government introduced new equipment and improved electronic communication between the Karachi Port authorities and the private terminals, thus shortening the time needed to export goods. According to the World Bank & IFC Doing Business 2013, starting a company in Pakistan is relatively easier than it was in the previous years, requiring 10 procedures and taking an average of 21 days. The cost of GNI per capita, however, has increased to 9.9%. Nevertheless, no minimum capital is required to start up a company.

Furthermore, the tax regime in Pakistan is much more complex and time-consuming compared to the regional averages, as illustrated in the World Bank & IFC Doing Business 2013. The US Department of State 2013 also notes that foreign investors have complained that when operating in Pakistan, they are faced with a complex set of taxes and control measures, both at federal and provincial levels. These taxes have been assessed with significant administrative discretion, resulting in discrimination among taxpayers, inefficiency, and corruption. Companies face a situation of uncertainty regarding economic policies and their implementation, as public officials enjoy a high level of discretionary power, which enables them to interpret laws as they see fit and encourages corrupt practices and favouritism. Business executives surveyed by the World Economic Forum Global Competitiveness Report 2012-2013 report that government officials usually favour well-connected companies and individuals when deciding on policies and contracts. Corruption is also rife in the process of obtaining licences and documents. The results of the above are time-consuming procedures and increased costs. For example, according to the World Bank & IFC Doing Business 2013, obtaining a construction permit requires a company to go through 11 procedures and takes an average of 222 days at a cost of 216% of per capita income.

According to the US Department of State 2013, although Pakistan's legal framework and economic strategy do not discriminate against foreign investment, protection of property rights and contract enforcement is perceived to be problematic because of the irregularities and corruption in the judicial system. Moreover, the US Department of State 2012 reports that the judiciary is often subject to external influences, such as fear of reprisal in terrorism cases. In non-political cases, the media and the public generally consider the high court and the Supreme Court credible. However, lower courts continue to be plagued by corruption, inefficiency, and pressure from prominent wealthy, religious, and political figures. The business community generally has a low degree of confidence in the Pakistani legal system, and does not consider the legal framework for settling disputes and challenging regulation to be efficient, as illustrated in the World Economic Forum Global Competitiveness Report 2012-2013. Pakistan has been a member of the New York Convention of 1958 since 2005, but the ordinance implementing the Convention expired in August 2010. A bill to rectify this was passed by the National Assembly in November and is now waiting for a final approval from the Senate. Pakistan is a member of the International Centre for the Settlement of Investment Disputes (ICSID); thus, in principle, arbitration should be secure. Access the Lexadin World Law Guide for a collection of legislation in Pakistan.

Section 3 - Economy

Decades of internal political disputes and low levels of foreign investment have led to slow growth and underdevelopment in Pakistan. Agriculture accounts for more than one-fifth of output and two-fifths of employment. Textiles account for most of Pakistan's export earnings, and Pakistan's failure to expand a viable export base for other manufactures has left the country vulnerable to shifts in world demand. Official unemployment was 6.6% in 2013, but this fails to capture the true picture, because much of the economy is informal and underemployment remains high. Over the past few years, low growth and high inflation, led by a spurt in food prices, have increased the amount of poverty. As a result of political and economic instability, the Pakistani rupee has depreciated more than 40% since 2007. The government agreed to an International Monetary Fund Standby Arrangement in November 2008 in response to a balance of payments crisis. Although the economy has stabilized since the crisis, it has failed to recover. Foreign investment has not returned, due to investor concerns related to governance, energy, security, and a slow-down in the global economy. Remittances from overseas workers, averaging about $1 billion a month since March 2011, remain a bright spot for Pakistan. However, after a small current account surplus in fiscal year 2011 (July 2010/June 2011), Pakistan's current account turned to deficit in the following two years, spurred by higher prices for imported oil and lower prices for exported cotton. Pakistan remains stuck in a low-income, low-growth trap, with growth averaging about 3.5% per year from 2008 to 2013. Pakistan must address long standing issues related to government revenues and energy production in order to spur the amount of economic growth that will be necessary to employ its growing and rapidly urbanizing population, more than half of which is under 22. Other long term challenges include expanding investment in education and healthcare, adapting to the effects of climate change and natural disasters, and reducing dependence on foreign donors.

Agriculture - products:

cotton, wheat, rice, sugarcane, fruits, vegetables; milk, beef, mutton, eggs

Industries:

textiles and apparel, food processing, pharmaceuticals, construction materials, paper products, fertilizer, shrimp

Exports - commodities:

textiles (garments, bed linen, cotton cloth, yarn), rice, leather goods, sports goods, chemicals, manufactures, carpets and rugs

Exports - partners:

US 13.3%, China 10.9%, UAE 8.6%, Afghanistan 8.5% (2012)

Imports - commodities:

petroleum, petroleum products, machinery, plastics, transportation equipment, edible oils, paper and paperboard, iron and steel, tea

Imports - partners:

China 19.8%, Saudi Arabia 12%, UAE 11.9%, Kuwait 6.2% (2012)

Banking

The financial sector in Pakistan is going through a major transition period. New groups are buying out Pakistan operations of foreign banks and the number of listed banks is also increasing. While the income from core banking activity is increasing due to higher business volume, earnings are also expected to further improve due to greater trends toward consumer finance, housing finance and enhanced lending to the agriculture sector.

Pakistan's banking sector consists of commercial banks, foreign banks, development finance institutions (DFI's), and micro-finance banks. Presently there are 40 commercial banks, seven DFI's, and six micro-finance banks operating in the country. The commercial banks comprise four nationalized banks, 23 local private banks, 9 foreign banks and four specialized banks. All these banks are supervised and regulated by the State Bank of Pakistan.

Stock Exchange

The capital market in Pakistan consists of three stock exchanges located in Karachi, Lahore and Islamabad. The principal securities traded on these exchanges are ordinary shares. However, other securities such as mutual fund certificates, modaraba certificates, government and corporate bonds and Term Finance Certificates are also being traded. The Karachi Stock Exchange (KSE) is the largest exchange in Pakistan and is a member of the Federation of Euro-Asian Stock Exchanges (FEAS) and the South Asian Federation of Exchanges (SAFE). It is also an affiliated member of the World Federation of Exchanges and the International Organization of Securities Commissions.

Section 4 - Investment Climate

Executive Summary

Despite a relatively open foreign investment regime, Pakistan remains a difficult environment for foreign investors. An unpredictable security situation, chronic energy shortages, and a challenging business climate, including difficulties faced by investors related to timely settlement of disputes, intellectual property rights enforcement, and taxation issues have led to a precipitous drop in Foreign Direct Investment (FDI) in recent years. Net inflows of FDI peaked at $5.4 billion in fiscal year 2008, before dropping 73 percent in the following five years. Since the Pakistan Muslim League-Nawaz (PML-N) government took office in June 2013, the numbers have marginally improved: in the first nine months (July-March) of fiscal year 2014, net FDI was $669.8 million, up 6 percent year-on-year. More than half went to the upstream oil and gas sector.

The PML-N government of Prime Minister Nawaz Sharif was elected on pledges to turn around Pakistan's economy, enhance trade and investment, and solve ongoing energy shortages. In September 2013, the government and the International Monetary Fund (IMF) entered into a three-year $6.8 billion Extended Fund Facility (EFF) arrangement which sets forth a series of reform benchmarks. Since taking office, the government has implemented some macroeconomic and energy reforms, and resumed dormant privatization efforts, beginning with plans to sell government stakes in 31 public companies identified by the IMF. In April 2014, the government completed a successful, long-awaited 3G/4G wireless spectrum auction and anticipates that 3G/4G services will be introduced before the end of 2014.

The United States is consistently one of the largest sources of foreign direct investment in Pakistan and one of Pakistan's largest trading partners. The Karachi-based American Business Council (ABC), an affiliate of the U.S. Chamber of Commerce, has a membership of 63 U.S. companies operating in Pakistan across a range of industries, many of which are Fortune 500 companies. The Lahore-based American Business Forum (ABF) provides a similar platform for U.S. investors. American companies have experienced profitable investments across a range of sectors, most notably, fast-moving consumer goods and financial services.

The United States and Pakistan signed a Trade and Investment Framework Agreement (TIFA) in 2003, and TIFA Council Meetings between the two sides are held annually. The United States and Pakistan opened negotiations on a Bilateral Investment Treaty (BIT) in 2004. Negotiations occurred intermittently (most recently in August 2012) but are currently stalled.

1. Openness To, and Restrictions Upon, Foreign Investment

The Government of Pakistan welcomes foreign investment and offers some incentives to attract new capital inflows, including tax exemptions, reduced tariffs, and infrastructure and investor facilitation services in designated special economic zones. Since 1997, Pakistan has established and maintained a largely open investment regime. In order to increase its competitiveness as an investment destination, the Government of Pakistan (GOP) announced the Investment Policy 2013, which further liberalizes investment policies to nearly all sectors.

Despite this openness to foreign direct investment (FDI), net inflows of FDI have declined sharply in Pakistan over the last five years, from a peak of $5.4 billion in fiscal year(FY) 2008 to $1.46 billion in FY 2013. (Pakistani fiscal year runs July-June.) Analysts attribute this overall decline to the deteriorating security environment, the chronic energy crisis, and macroeconomic instability, among other factors. Pakistan remains a profitable market for fast moving consumer goods, and multinational corporations have a robust presence in this sector and a number of others. Future foreign investment inflows will depend on how the GOP addresses the above challenges. There is need for an improved law and order situation, enhanced legal protection for foreign investment, including intellectual property rights, and a clear and consistent policy of upholding contractual obligations and settlement of tax disputes.

The current government, which took office in June 2013, is actively seeking to reverse the decline in FDI by courting international investors through the Board of Investment (BOI). In the first nine months (July-March) of FY 2014, net FDI inflows were $669.8 million, up 6 percent year-on-year. Pakistan's Overseas Chamber of Commerce and Industry (OICCI), which represents 196 foreign investors in Pakistan, released a "Perception and Investment Survey" in January 2014 which showed that more than 80 percent of its members were optimistic that the new government would improve the business climate. (http://oicci.org/wp-content/uploads/2013/08/OICCI-Perception-Investment-Survey-2013.pdf).

Foreign investors in the **services** sector may retain 100 percent equity "for the life of the investment." Pakistan eliminated minimum initial capital investment requirements in all sectors including **services** in its 2013 Investment Policy. Now there is no minimum requirement for the amount of foreign equity investment in any sector. Also, there is no upper limit on the share of foreign equity allowed, except in specific sectors including **airline**, **banking**, **agriculture** and **media**. 100percent percent repatriation of profits is allowed in the **services** sector. Investors need to obtain licenses from the Pakistan Telecommunication Authority in order to start a cellular operation network. In the social and infrastructure sectors, 100percent percent foreign ownership is allowed. In the agricultural sector, 60percent percent foreign ownership is allowed. Corporate farming is permitted, though only companies incorporated in Pakistan can own land used for this use. The GOP allows remittance of full capital, profits, and dividends, and dividends are tax-exempt. There are no limits on the size of corporate farming land holdings and the sector is allowed to lease land for 50 years, with renewal options. The raw material and machinery for agricultural and agro-based industries can be imported at 0percent percent custom duty. The tourism, housing, construction, and information technology sectors have been granted "industry" status, which means they are eligible for lower tax and utility rates than banks, insurance companies, and other businesses that are considered a part of the "commercial sector." Only Pakistanis can invest in small scale **mining** valued at less than Rs. 300 million (about $3 million).

In FY 2007, Pakistan eliminated some tariff incentives provided for various manufacturing sub-sectors, specifically the value-added, priority, and high-tech industries. Currently, the manufacturing sector pays up to 5percent percent customs duty on imported plant and machinery. In its FY 2007 budget, the government eliminated sales tax on all types of plant and machinery. Export industries are entitled to duty-free import of raw materials. There is no minimum equity investment or national ownership requirement for investments in the manufacturing sector and the GOP allows a 25percent percent first-year depreciation allowance for all fixed assets. The agriculture sector is entitled to the import of plant and machinery free of duty. The GOP also allows 25percent percent of the cost of plant and machinery as first year depreciation allowance in infrastructure and social sectors.

Foreign investors in Pakistan sometimes complain of a confusing array of federal and provincial taxes and controls. These taxes are often assessed with considerable administrative discretion, resulting in discrimination among taxpayers, inefficiency, and corruption. Attempts to reform the tax system date back to the 1980s and have failed to yield any significant results. Pakistan has one of the lowest tax-to-GDP ratios in the world (about 9percent percent in 2013). The tax regime is discriminatory and poorly connected multinational corporations shoulder a large portion of the tax burden. The number of approvals, permits, and licenses required from various governmental entities prior to launching a business project posed a significant hurdle to investment in Pakistan in the past, but many of these licenses and permits have been removed over the last several years. Mandatory Board of Investment (BOI) investor registration is no longer required, but investors still must register with the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP).

Since 1997, the GOP no longer screens industrial sector foreign investment unless investors apply for special incentive packages or government tariff protection and price guarantees. The same year, the GOP also eliminated requirements that foreign investors seek provincial government clearance for project location.

The GOP is committed to providing full national treatment and legal protection to foreign investment in all but designated “sensitive” sectors which include **defense** and **broadcasting**. The 1976 Foreign Private Investment Promotion and Protection Act specifically provides that foreign investment will not be subject to higher income tax levels than those assessed on similar investments made by Pakistani citizens. This act and the 1992 Economic Reforms Act are the primary statutory safeguards for the rights of foreign investors. While Pakistan's legal framework and economic strategy do not discriminate against foreign investment, contract and other legal enforcement can be problematic given the domestic court system's inefficiency and lack of transparency. The SECP regulates the insurance industry, while the SBP oversees the banking sector. The GOP opened the insurance industry as part of its **financial sector** reforms. In 2007, the government allowed 100percent percent foreign equity in the insurance business subject to the condition that foreign investors are required to bring in minimum paid up capital of $5.3 million in life insurance and $3.1 million in non-life/general insurance.

Pakistan improved its **financial services** commitments after signing the World Trade Organization(WTO) Financial Services Agreement in December 1997. Foreign firms have the right to establish new banks, and foreign banks and securities firms can grandfather previously owned rights. Foreign banks are permitted to establish branches as well as wholly-owned locally incorporated subsidiaries, subject to the condition that they have global tier-1 paid up capital of $5 billion or more, or they belong to countries which are part of regional groups and associations, of which Pakistan is a member (e.g., the Economic Cooperation Organization – ECO, and the South Asian Association for Regional Cooperation – SAARC). Foreign banks that do not meet these conditions are capped at a 49percent percent foreign equity stake. Currently, foreign banks, like local banks, must submit an annual branch expansion plan to the SBP for approval. The SBP approves new branch openings based on the bank's net worth, adequacy of capital structure, future earnings prospects, credit discipline, and the needs of the local population. However, all banks, including foreign banks, are required to open 20percent percent of their new branches in small cities, towns, and villages.

The **financial sector** in Pakistan was opened to private sector (both for local and foreign investment) in 1989 as a part of Federal Government's policy of deregulation and privatization. The State Bank of Pakistan has placed a moratorium on setting up of commercial banks owned 100percent percent by local sponsors. Following the WTO commitments, Pakistan permits foreign financial institutions/entities either directly or in collaboration with local partners/sponsors to open commercial banks.

With the prior approval of the SBP, foreign banks whose headquarters hold paid up capital (free of losses) of at least $300 million and have a capital adequacy ratio of at least 8percent percent are allowed to maintain the following minimum capital requirements: foreign banks operating up to five branches are required to maintain their assigned capital at $28 million and foreign banks operating six to 50 branches are required to maintain assigned capital at $56 million. Foreign banks operating above 50 branches are required to maintain assigned capital at $94 million. In 2009, the SBP also raised the required minimum capital adequacy ratio for banks and development finance institutions to 10percent. percent.

Pakistan permits most-favored-nation (MFN) exemptions in the **financial** and **telecom** sectors, with a view to preserving reciprocity requirements and promoting joint ventures among Economic Cooperation Organization countries (Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, Afghanistan, Iran, Turkey and Pakistan). Islamic banks in Pakistan are subject to the same regulatory requirements as traditional banks.

The GOP's privatization of state-owned enterprises (SOEs) stalled in 2008, and the GOP did not earn any money through privatization in FY 2013. Between 2002 and 2007, Pakistan attracted significant foreign investment through the privatization of SOEs in the **financial services** and **telecommunications sectors**. The current government has resumed privatization efforts and committed in the IMF Extended Fund Facility to privatize 31 SOEs by the end of 2014, beginning with the sale of government stakes in high-performing publicly-traded firms via capital markets transactions. Plans to privatize large state-owned firms including Pakistan Railways, Pakistan International Airlines (PIA) and Pakistan Steel will require significant restructuring prior to privatization and are likely to face substantial political resistance. Foreign investors are permitted to bid on state-owned industries and **financial institutions** on terms equivalent to those offered to local investors. The GOP has limited government powers to oversee or investigate privatization transactions for up to one year following execution.

Mergers are allowed between multinationals as well as between multinationals and local companies. The 1984 Companies Ordinance governs mergers and takeovers.

TABLE 1:

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	(127 of 177)	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	(126 of 177)	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	(110 of 189)	http//doingbusiness.org/rankings
Global Innovation Index	2013	(137 of 142)	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	$1,260	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

TABLE - 1B Scorecards: The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a 2012 per capita gross national income (GNI) of $4,085 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: http://www.mcc.gov/pages/selection/scorecards. Details on each of the MCC's indicators and a guide to reading the scorecards, are available here: http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf

2. Conversion and Transfer Policies

The SBP maintains tight control on the exchange rate and imposes informal controls on transferring foreign exchange. De jure, there are no limits on dividends, remittance of profits, debt service, capital, capital gains, returns on intellectual property, or payment for imported inputs; however, banks report that they must justify all outward flows of foreign currency with underlying trade documents. Additionally, the Government recently reduced the maximum limit of carrying physical cash abroad to $5,000 from $10,000. Though there are no restrictions on payment of royalties and technical fees for the manufacturing sector, there are some limitations on the non-manufacturing sector, including limiting initial royalty payments to $100,000 and capping subsequent royalty payments to 5percent percent of net sales for 5 years. Royalty and technical payments are subject to 15percent percent income tax. Investor remittances can only be made against a valid contract or agreement that must be registered with the SBP within 30 days of execution.

Seeking to support cross-border payments of interest, profits, dividends, and royalties, the SBP eliminated the requirement that commercial banks notify it before issuing foreign exchange in 2002. Banks still have to report loan information to the SBP, which then verifies that remittances match the repayment schedule.

In June 2004, the State Bank of Pakistan required informal money changers to register as foreign exchange companies, and these companies became subject to auditing by the SBP. This resulted in the consolidation of the foreign exchange regime, subjecting it to more stringent regulations, including higher minimum capital requirements and stricter monitoring. These exchange companies are permitted to buy and sell foreign exchange to individuals, banks, and other exchange companies, and can sell foreign exchange to incorporated companies for remittance of royalties, franchises and technical fees. In recent years there has been an increase in workers' remittances sent through these companies. In partnership with State Bank of Pakistan, the Ministry of Overseas Pakistanis and the Ministry of Finance, the Pakistan Remittance Initiative (PRI) was established in 2009 to achieve the objective of facilitating a faster, cheaper, and more efficient flow of remittances. As per Section 114 (4) of the 2001 Income Tax Ordinance of Pakistan, the government has given tax exemption to any amount of foreign exchange remitted from outside Pakistan through normal banking channels which are converted into rupees.

3. Expropriation and Compensation

Foreign direct investment in Pakistan is protected from expropriation by the 1976 Foreign Private Investment Promotion and Protection Act, and by the 1992 Furtherance and Protection of Economic Reforms Act.

4. Dispute Settlement

Pakistan's legal system is based on British law, with an overlay of Islamic legal precepts. Tiers of civil and criminal courts begin at the tehsil (sub-district) level and end at the Supreme Court, with each province having a high court. The provincial high courts hear appeals from judgments of the district courts (for civil cases) and session courts (for criminal cases). Often the same individual sits as both a district and sessions judge. The Supreme Court hears appeals from the provincial high courts, referrals from the federal government, and cases involving disputes between provinces or between a province and the federal government. There are also a number of special courts and tribunals to deal with specific types of cases, such as taxation, banking, and labor. Commercial cases in the courts typically take years to resolve, and most foreign investors typically write into their contracts the right to international arbitration. Pakistan does not have a bankruptcy law. Bankruptcy is usually handled through court-appointed liquidators who sell off the property of a bankrupt company, but this process is slow and can take many years.

In 2004, Pakistan's Cabinet approved Pakistan joining the 1958 New York Convention on Recognition and Enforcement of Foreign Arbitral Awards ("New York Convention"). The New York Convention was then ratified by Pakistan's Cabinet in 2005, but the ordinance implementing the Convention expired in August 2010. Pakistan's National Assembly reenacted the New York Convention on July 15, 2011.

Pakistan is a member of the International Center for the Settlement of Investment Disputes (ICSID). The Center provides facilities for conciliation and arbitration of investment disputes between contracting states and nationals of other states under the Convention for the Settlement of Investment Disputes. The Pakistan Arbitration Act of 1940 also provides a mechanism for arbitrating commercial disputes. A previous dispute between a major U.S. multinational and its local Pakistani partner raised concerns in the international investor community over how arbitration clauses are handled in Pakistan. In 1998, this company filed a lawsuit, and despite a 2000 ruling of the International Chamber of Commerce (ICC) Arbitral Panel in favor of the U.S. investors, and a 2005 pronouncement by a Lahore civil court upholding the ICC decision, local parties continued litigating the matter in Pakistani courts for many years. The Lahore High Court eventually ruled in favor of the U.S. multinational company and upheld the original arbitration settlement. The case was finally resolved when the local party withdrew its appeal of the decision in June 2009.

Several other high profile foreign investment disputes in the **mining** and **energy** sectors remain active cases in Pakistani courts.

5. Performance Requirements and Investment Incentives

Current GOP investment policy provides that all incentives, concessions, and facilities for industrial development be equally available to domestic and foreign investors. Prior year budgets have contained some additional incentives for export industries, but most tax incentives are promulgated by Special Regulatory Order (SRO) by the Federal Board of Revenue (FBR). For example, sales taxes on plant and machinery were abolished, as were customs duties on imported **agricultural machinery**. Customs duties for machinery imported by the manufacturing and social service sectors range between 0-5percent. percent. Export-oriented industries have also been granted customs duty exemptions on the import and purchase of raw materials. The FY2014 budget retained all these incentives. In 2011, the GOP imposed sales taxes ranging between 4- 6percent percent on unregistered supply chain goods of export-oriented sectors including **textile**s, **surgical**, **sports**, **leather**, and **carpets**. Registered supply chain goods of these sectors remain exempt from sales tax, but retailers in these sectors are charged a 4percent percent sales tax irrespective of registration. Close to 94 percent of the tariff lines fall in the 0-30 percent tariff rates range. Vehicles attract the highest duties. The GOP reduced the number of duty slabs from 8 to 7. The GOP further reduced customs duty on 88 pharmaceutical raw materials and other input goods from 10percent to 5percent. As part of its IMF program, Pakistan has pledged to reduce the number of tariff slabs.

Petroleum companies receive royalties at the rate of 12.5percent of the value of petroleum at the field gate.

There are no conditions imposed on the transfer of **technology**. Foreign investors are allowed to sign technical agreements with local investors with no requirement to disclose proprietary information. According to the Investment Policy 2013, industrial units bringing in **technology** that is not available in Pakistan for the first time shall be declared as pioneer industry and will be provided the same incentives that are available in Special Economic Zones (SEZs).

The 2007-08 trade policy duplicated export processing zone (EPZ) incentives. Existing enterprises exporting at least 80percent percent of their production are eligible for incentives under this program, but new enterprises are required to export 100percentpercent of their production in order to be eligible. In 2013, the GOP issued a Strategic Trade Policy Framework 2012-15, which also retains these measures. For new investments, a 25percent first-year depreciation allowance for plant, machinery, and equipment can be used to offset taxable income, and unused allowances can be carried forward. An investment tax credit of up to 25percent of the cost of plant, machinery, and equipment is available to encourage plant expansion and modernization.

With a recommendation letter from a foreign chamber of commerce, an invitation letter from a business endorsed by the Chamber of Commerce of Pakistan, or a recommendation letter from one of Pakistan's foreign commercial attachés, most U.S. businesspeople are granted multiple entry visas valid for five years with a three-month stay at Pakistani Embassies and Consulates. Technical and managerial personnel are not required to obtain special work permits in sectors that are open to foreign investment, including the **manufacturing**, **infrastructure**, **agricultural**, **services**, **health**, and **education** sectors. The duration of work visas for technical and managerial personnel are one year and can be extended on a yearly basis.

6. Right to Private Ownership and Establishment

Foreign and domestic investors are free to establish and own businesses in all sectors except five: arms and munitions manufacturing, high explosives manufacturing, currency/mint operations, non-industrial alcohol manufacturing, and radioactive substance manufacturing. In retail **food sales**, the GOP has influenced pricing of essential **foodstuffs** (such as flour, rice, and lentils) through its several hundred Utility Stores. Market leaders in the cement and sugar industries are alleged to have formed cartels. Investment in the **energy** sector, particularly conventional gas, is stymied by a policy that underprices resources and fails to safeguard contracts, and by an evolving relationship between and among the federal and provincial governments, whose views on the disposition of natural resources do not always match. The 2012 **Petroleum** Policy, adopted in August 2012, increased the wellhead price for natural gas to $6 per million British thermal units (mmbtu), as part of an effort to increase exploration and attract new investors to this sector.

7. Protection of Property Rights

Pakistan's legal system offers incomplete protection for the acquisition and disposition of property rights. The 1979 Industrial Property Order safeguards industrial property in Pakistan against compulsory acquisition by the government without sufficient compensation, even in the public interest, in accordance with provisions of the law. The order protects both local and foreign investment. The 1976 Foreign Private Investment Promotion and Protection Act guarantees remittance of profits earned through sale and appreciation in value of property.

Pakistan remained on USTR's Priority Watch List in the2014 Special 301 review of intellectual property rights (IPR). The report cites weak protection and enforcement of IPR, particularly with respect to copyrights, **pharmaceutical** data, and **media** piracy. Pakistan did not take any significant steps to improve copyright enforcement, especially with respect to addressing book and optical disc piracy in 2013. Only a very small proportion of arrests resulted in prosecutions, and the few verdicts issued resulted in minor sentences. To address this, Pakistan should take steps to fully implement the Intellectual Property Organization of Pakistan Act of 2012 (IPO Act), particularly by establishing specialized IP Tribunals and an operational Policy Board. The GOP has identified intellectual property protection as a key area for its "second generation" economic reforms.

Pakistan has enacted five major laws relating to patents, copyrights, trademarks, industrial designs and layout designs for integrated circuits, but the laws' impact has been limited by weaknesses in the legislation and/or enforcement.

In April 2005, in an effort to improve the protection of intellectual property within Pakistan, the Government of Pakistan transferred inter-agency responsibility for the enforcement of intellectual property laws to the Federal Investigation Agency (FIA). FIA staff received specialized training in intellectual property enforcement and technologies, which enabled the agency to expand enforcement operations to target manufacturers of pirated goods. Expanding manpower and training at the FIA remains a key challenge. The Federal Board of Revenue (FBR), which manages customs authority in Pakistan, faces numerous challenges in properly identifying and interdicting counterfeit material at Pakistan's borders. However, in a promising sign, it recently established an IPR Directorate with the aim to improve capacity and increase interdiction of counterfeit goods.

Also in 2005, in response to longstanding domestic and international criticism of Pakistan's lack of a functioning central IPR regulatory and enforcement authority, as well as the need to implement its WTO obligations in the Agreement for Trade Related Aspects of Intellectual Property Rights (TRIPS), the Pakistani President created the Intellectual Property Organization (IPO). IPO, a semi-autonomous body under the administrative control of the Pakistani Cabinet, consolidates into one government agency the authority over trademarks, patents, and copyrights – areas which were previously handled by offices in the three separate ministries. IPO's mission is to initiate and monitor the enforcement and protection of intellectual property rights through law enforcement agencies, in addition to dealing with other IPR-related issues. While IPO's establishment represented an important milestone, it has not led to consistently measurable results in terms of increased public awareness of intellectual property rights, stepped up enforcement, or prompt action to address specific legislative and policy weaknesses. IPO has conducted training courses for IP professionals in accordance with WIPO standards. The Intellectual Property Organization law was adopted in November 2012, and provides for specialized IPR tribunals to adjudicate cases and a policy board with private sector representation to assess policy decisions. The GOP made no progress in implementing the provisions of the Law during the last one year. The Intellectual Property Organization forwarded the proposal to form the Policy Board to the Cabinet, but the Cabinet still has not approved it. The establishment of the IPR tribunals remains pending with the Ministry of Law. Pakistan has made some progress against large-scale illegal optical disc production and retail sales of pirated and counterfeit products, but needs to increase enforcement actions against book piracy, aggressively prosecute IPR crimes, and ensure that its courts issue deterrent-level sentences for IPR infringers.

Pakistan's government has made no tangible progress to further protect **agricultural** IPR. Pakistan does not enforce intellectual property rights for genetically modified organisms (GMO). This has deterred U.S. seed companies from entering the Pakistani market. In 2006, the (now defunct) Ministry of Food & Agriculture introduced legislation to Parliament outlining Breeders Rights for Planting Seeds to set standards to protect against illegal multiplication of seeds and better controls on seed certification. The Ministry also introduced legislation to place tighter controls on seed companies in registering certified seed and producing quality seed. Parliament has not yet voted on either piece of legislation, and it is unlikely to take up the legislation in the short term. Seed labeled "certified" often has less than a 50percent germination rate, compared to well over 90percent in the United States. U.S. seed companies have failed to negotiate a deal with government officials to allow for the legal introduction of biotech cotton seed into Pakistan.

Pakistan is a party to the Berne Convention for the Protection of Literary and Artistic Works, and is a member of the World Intellectual Property Organization (WIPO). On July 22, 2004, Pakistan acceded to the Paris Convention for the protection of industrial property. Pakistan has not yet ratified the WIPO Copyright Treaty nor the WIPO Performance and Phonograms Treaty.

Patents

Pakistan enacted a patent law in 2000 that protects both process and product patents in accordance with its WTO obligations. Under this law, both the patent-owner and licensees can file suit against those who infringe. A Patent Ordinance in 2002 weakened the 2000 Patent Law by eliminating use patents, restricting patent filings to single **chemical** entities, limiting protection for derivatives, and introducing barriers to patenting biotechnology-based inventions. This change generated great concern among U.S. pharmaceutical firms seeking to sell patented drugs in Pakistan. In addition, the GOP has not implemented patent linkages, effectively authorizing the sale of pharmaceuticals without requiring checks to confirm that another firm does not hold an active patent on the compound. Pakistan has failed to make progress in providing effective protection against unfair commercial use of undisclosed test and other data generated to obtain marketing approval for pharmaceutical products. Although draft data protection regulations were formulated in 2009, the regulations remain under GOP review and have not been promulgated. Pakistan currently does not have an effective system to prevent the issuance of marketing approvals for unauthorized copies of patented pharmaceutical products. In 2009, Pakistan's President issued an ordinance that removed an 18-month patent application processing deadline, slowing the processing of pending patent applications. This ordinance has frustrated the pharmaceutical industry, as many companies have already been waiting for years for approval of their product patents. The GOP maintains that other countries do not adhere to an 18-month application processing period. While the former Health Ministry claimed that this change was made to avoid litigation in view of capacity constraints, the ordinance has effectively created an environment where the potential for discriminatory treatment exists.

Trademarks

Pakistan promulgated its Trademarks Ordinance in 2000, which provides for the registration and better protection of trademarks, and restricts the use of fraudulent trademarks. The ordinance has been enforced since April 2004, after the enactment of implementing rules. The GOP has eliminated the requirement that pharmaceutical firms label the generic name with at least equal prominence to that of the brand name on all products. Trademark infringement remains widespread. The Competition Commission of Pakistan (CCP) has authority under Section 10 of the Competition Act to take action against companies for "deceptive marketing practices" for using other companies' trademarks in advertising. The CCP is working on an MOU with the IPO regarding authority over such cases.

Copyrights

Pakistan remains a predominantly pirate book market, although print piracy is slowly giving way to pirate photocopying. The informal markets ("Bazaars") in Karachi and Lahore, once major sources of pirated books, were raided in 2013, although book piracy has continued to spread. Pirates now focus attention on illegal photocopies made from one master/source copy legitimately purchased online or overseas, and slapping on a higher-quality color-printed book cover. The printing of title covers has taken on a new dimension, since pirates now often print the pirated book obscuring the author's names, publisher's names, logos, ISBN numbers, etc. Print piracy consists of smuggled books from Iran and Afghanistan by land, Saudi Arabia by air, or overruns by legitimate printers in Pakistan. Unauthorized India-only reprints are also being imported into Pakistan. All types of books are pirated, from English language novels to fiction and non-fiction trade books. Pirate booksellers are highly organized, well-connected, and often succeed in convincing authorities to drop cases immediately after any enforcement action or avoid enforcement action altogether. In some cases, they have even resorted to threats of violence and intimidation to avoid enforcement. Some pirate enterprises are now able to produce fairly high-quality counterfeit copies that are difficult to differentiate from legitimate versions. Additionally, the National Book Foundation continues to claim it may avail itself of compulsory licenses to copy books even though doing so is incompatible with Pakistan's international obligations under the Berne Convention. According to the International Property Alliance, the **publishers** operating in Pakistan report that overall the situation in Pakistan has improved slightly due to increased enforcement activity, claiming that piracy levels are proportionately similar to Bangladesh, Iran, and Sri Lanka. Pakistani authorities, especially the Federal Investigations Agency (FIA) in Islamabad, have taken some actions against book piracy in the Bazaars and throughout Pakistan.

Despite significant public awareness and enforcement drives by the Business Software Alliance over the past several years, enterprise end-user software piracy remains a serious problem. The GOP did not take any significant steps to improve copyright enforcement in 2013, especially with respect to optical disc piracy. Not all of arrests resulted in prosecutions, and the few verdicts that were issued resulted in imposition of insignificant sentences. Optical **media** piracy remains a major concern in Pakistan. The import and export of pirated **media** was banned under the 1969 Customs Act. However, the easy import of pirated movies and music CDs and DVDs continues in large quantities from China.

Pakistan's Federal Investigation Agency (FIA) continues to conduct occasional raids. The accused parties, however, engage highly paid and high-profile lawyers while the services of

FIA's Prosecutors are confined to limited courts. In most of the cases, higher courts have stayed the investigation / prosecution proceedings and justice was deterred for want of special prosecutors demanding very high fee. Moreover, Pakistan is now reportedly being used as conduit for infringing products transiting from Russia, Malaysia, Singapore, China, Bangladesh, and Sri Lanka for onward distribution to third countries. Since 2008, the factory production of pirated optical software has become less prevalent as vendors have started manufacturing and selling their merchandise from residential locations, which they continue to do with impunity. Occasional enforcement action has done little to dent the market for pirated goods, as pirated CDs, books, movies, and software remain readily available in most local markets in Pakistan.

Internet use continues to rise in Pakistan, and online piracy in Pakistan is also a problem. Publishers report that reference books, online journals, and trade books are being digitized and provided by schools. Thus far, no steps have been taken to address increasing online piracy or illegal digitization. Pakistan has thousands of mostly local and small-scale cable television operators nationwide. The Pakistan Electronic Media Regulation Authority (PEMRA) has prohibited cable operators from displaying pirated content, but the FIA has been unable to enforce this provision. Cable operators frequently broadcast pirated material.

The Industrial Designs Law provides for the registration of designs for a period of ten years, with the possibility of extending the registration for two additional ten-year periods. The Law for Layout Designs of Integrated Circuits provides for protection of layout designs for ten years starting from its first commercial exploitation anywhere in the world. Penalties and legal remedies are also available in case of infringement on industrial designs, layout designs and trademarks. Implementing rules to enforce these ordinances remain incomplete. In 2009, the Cabinet approved a draft Plant Breeder's Rights Law and an amendment to the Seed Act of 1976, both of which are pending approval in Parliament and passage from the provincial assemblies.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Embassy point of contact: Hamza Khan KhanHS@state.gov

Local lawyers list: http://islamabad.usembassy.gov/cs_legalinfo.html

8. Transparency of the Regulatory System

A number of government agencies oversee commercial and financial regulatory regimes, including the Securities and Exchange Commission of Pakistan (SECP), the Board of Investment (BOI) and the State Bank of Pakistan (SBP). While Pakistani law provides for recourse against adverse administrative decisions, the legal system remains backlogged and long court delays are common. The SECP is responsible for company administration under the 1984 Companies Ordinance and regulates securities markets through its Securities Market Division. The SECP and the national stock exchanges have cooperated to streamline procedures to register and list securities. Equity markets are regulated by the 1969 Securities and Exchange Ordinance and by the 1971 Securities and Exchange Rules. Winding up of the companies takes place under Companies Ordinance 1984 and banking companies exit takes place under Banking Companies Ordinance 1962. SECP and SBP have further streamlined the process for filing for bankruptcy and liquidation.

A Takeover Ordinance was enacted in 2002. Under Section 40 of the 1997 SECP Act, the SECP publishes draft regulations to seek public comment prior to their finalization. The SBP, in its role as bank regulatory authority, consults with commercial banks on proposed regulations. The FBR issues Statutory Regulatory Orders (SROs), which are used either to reduce duties to give special relief to certain sectors or to enhance duties. The FBR does not solicit public input on SROs.

The Competition Commission of Pakistan (CCP) is responsible for regulating the anti-competitive and monopolistic practices of both private sector and public sector organizations. A competition ordinance, drafted with technical assistance from the World Bank, was approved by Pakistani Cabinet in June 2007, and resulted in the creation of the CCP. Previously, competition law in Pakistan was under the jurisdiction of the Monopoly Control Authority, an independent regulatory authority that lacked enforcement capacity.

The Monopoly Control Authority regulatory oversight suffered from resource constraints, and state-owned enterprises (SOEs) were exempt from its provisions. Thus, in Pakistan, where SOEs dominate several sectors, competition regulation remained incomplete. A new Competition Commission Bill was signed by the President and became law on October 6, 2010. This law codified the mandate of the CCP into law, and revised the appeals process to include an Appellate Tribunal in Islamabad consisting of a retired judge and three private sector participants, who are tasked to deliberate and issue decisions within six months. The law also reduced the fine on offenders from 15percent of turnover to 10percent, and authorized the CCP to collect 3percent of the earnings of other major regulatory agencies to supplement their budget. CCP has issued 65 orders against the monopolies and anti- competitive practices during the period April 2008 through November 2013.

With the end of licensing regimes, the rationalization of bureaucratic controls, and broad-based market liberalizations, market entry barriers have been reduced but not fully eliminated.

9. Efficient Capital Markets and Portfolio Investment

Pakistan’s **financial sector** policies support the free flow of resources in product and factor markets for domestic and foreign investors. The SBP and the SECP continue to expand their regulation and oversight of financial and capital markets. The banking sector is moderately concentrated with the top five banks by asset size representing 52.6percent of sector assets, and of these banks only one is state-owned. In 2013, banking sector assets totaled $107 billion. As of December 2013, net non-performing bank loans (NPLs) total approximately $1.3 billion, or 3.1percent of net total loans.

Credit is allocated on market terms, and the State Bank has kept the monetary policy stable since November 2013by keeping its policy interest rate at 10percent. Foreign-controlled **manufacturing**, **semi-manufacturing** (i.e. goods that require additional processing before marketing), and **non-manufacturing** concerns are allowed to borrow from the domestic banking system without regulated limits. The banks are required to ensure that total exposure to any domestic or foreign entity should not exceed 25percent of banks’ equity. While there are no restrictions on private sector access to credit instruments, few alternative instruments are available beyond commercial bank lending. Pakistan's domestic corporate bond, commercial paper, and derivative markets remain in the early stages of development. According to the Investment Policy 2013, foreign investors in all sectors are allowed to access domestic borrowing subject to prevailing rules/ regulations of SECP and SBP and observance of debt-equity ratio. The Investment Policy 2013 extends the use of loans to any purpose. Previously it was limited to import plant and machinery.

The Karachi Stock Exchange (KSE) is a member of the Federation of Euro-Asian Stock Exchanges (FEAS) and the South Asian Federation of Exchanges (SAFE). It is also an affiliated member of the World Federation of Exchanges and the International Organization of Securities Commissions. Pakistan's stock markets performed very well in FY2013,outperforming global stock markets including those of India, China, Hong Kong, Tokyo, the United States and UK. The stock market performance was driven by portfolio investment inflows, in addition to the better rates of return on Pakistani stocks. The KSE currently has 571 listed firms, but only five firms (three of which are state-owned enterprises) account for 38.4percent of market capitalization.

The GOP implemented a capital gains tax, effective July 1, 2010. The capital gains tax is applied at 10percent on stocks held for less than six months, and 7.5percent on stocks which are held for more than six months, but less than a year. A capital gains tax is not applied on holdings that exceed 12 months. The Capital Gains Tax Ordinance, promulgated on April 24, 2012, appointed the National Clearing Company of Pakistan Limited to compute, determine, collect and deposit the capital gains tax. Portfolio investments, capital gains, and dividends can be fully repatriated.

Recent capital market reforms include the introduction of minimum capital requirements for brokers, linking of exposure limits to net capital, strengthening of brokers' margin requirements, introduction of system audit regulations (mandating audit of 60percent of brokers), introduction of over the-counter (OTC) markets to facilitate registration of new companies with less paid-up capital, and introduction of a National Clearing and Settlement system. The SECP implemented a number of other regulations, including rules for clearing house regulations, margin trading regulations, proprietary trading regulations, and abolition of the group account facility. Capital markets' legal, regulatory and accounting systems are increasingly consistent with international norms.

Pakistan has adopted international accounting standards, with comprehensive disclosure requirements for companies and financial sector entities, and Pakistan adheres to the majority international accounting standards and international financial reporting standards. Pakistan Mercantile Exchange Limited, formerly known as the National Commodity Exchange, has been functioning since May 2007. Currently, the Mercantile Exchange deals in gold, silver, rice, sugar, cotton palm oil, and crude oil futures. The SBP, in its role as bank regulatory authority, has established a formal process of consultations with banks on draft regulations. Under Section 40 of the 1997 SECP Act, the SECP also publishes draft regulations to seek public comment prior to finalization.

The GOP enacted legislation providing a legal framework for friendly and hostile takeovers in 2002. The law provides that companies have to disclose any concentration of share ownership over 25percent. There are no laws or regulations that authorize private firms to adopt articles of incorporation that discriminate against foreign investment.

Per the Foreign Exchange Regulations, any foreign investor can invest in shares and securities listed on Stock Exchanges in Pakistan, and can repatriate profits, dividends, or disinvestment proceeds. The investor has to open a Special Convertible Rupee Account with any bank in Pakistan in order to make portfolio investments.

10. Competition from State-Owned Enterprises

The GOP's extensive 15-year privatization campaign came to an abrupt halt after 2006 when the Supreme Court reversed a proposed deal for the privatization of Pakistan Steel Mills, setting a precedent for future offerings. As a result, large and inefficient SOEs have retained monopolistic powers in a few key sectors, requiring the GOP to provide annual subsidies to cover SOEs' losses. Three of the largest SOE's are Pakistan Railways, Pakistan International Airlines, and Pakistan Steel Mills. Since the Sharif Administration took office in June 2013, it has restarted privatization efforts, pledged to privatize 31 state-owned companies, and hired transaction advisors for the first several transactions that are expected before the end of 2014.

Pakistan Railways (PR): PR is the only provider of rail services in Pakistan, and is also the largest public sector employer with close to 90,000 employees. Decades of corruption and mismanagement have caused PR's market share in total freight traffic to fall from more than 80percent in the 1970s, to less than 4percent today. Of PR's 500 locomotives, only 107 are reported to be in operation. The 2010 floods also caused extensive damage to Pakistan's rail network. PR posts a loss of$0.75 million per day. The company relies on government bailouts of $2.8 million a month to pay salaries and pensions. In the FY2014 budget, total government grant payments to PR are budgeted at $316 million. In 2012, Pakistan initiated three public-private partnerships to manage, improve, and develop its passenger service train service.

Pakistan International Airlines (PIA):PIA continues to struggle and is criticized for poor management, excessive staffing, inefficient operations, and a non-competitive market strategy. PIA's aging and fuel-inefficient fleet are suffering in the current competitive global environment. In contrast to PR, PIA is technically not operating as a monopoly, with Air Blue and Shaheen Air as popular, private sector alternatives. The Economic Coordination Committee of the Cabinet in a February 2013 meeting approved a financing plan for PIA including guarantees for repayment of $104 million loans during 2013, extension of GOP guarantees measuring$482 million and new guarantees against loans of $127 million, additional funding of $113 million and provision of $46 million for acquisition of narrow body aircraft on dry lease. PIA's current known debt is $1.5 billion. PIA's recently released 2014 first quarter results shows that it attained an operating profit of $17 million, versus against a loss of $57.4 million in the corresponding period last year. The Privatization Commission recently advertised for a financial advisor to take the lead in restructuring PIA prior to partial privatization of up to 26 percent.

Pakistan Steel Mills (PSM)**:** Established by the GOP as a cheaper option than importing steel, PSM has deteriorated into a money-losing enterprise that relies on a ban on steel imports to remain afloat. The proposed $360 million sale of a 75percent stake in PSM was halted by the Supreme Court in 2006 because of strong union and public opposition and a perception that the transaction undervalued PSM. . At present, the mill is operating at 11percent of its capacity and its current liabilities approximate $1.15 billion.

11. Corporate Social Responsibility

Awareness of corporate social responsibility among both producers and consumers in Pakistan is growing, and foreign and some local enterprises generally follow accepted CSR principles. Proctor and Gamble-Pakistan was the 2011 recipient of the Secretary of State's Award for Corporate Excellence (ACE) for demonstrating CSR in flood relief, support of education and orphans, implementation of science and technology standards, reduction of carbon dioxide emission at its facilities, and collaboration with universities to develop young business leaders.

12. Political Violence

The presence of several foreign and indigenous terrorist groups poses a potential danger to U.S. citizens throughout Pakistan. Across the country, terrorist attacks frequently occur against civilian, government, and foreign targets. Attacks have included armed assaults on heavily guarded sites, including Pakistani military installations. The Government of Pakistan maintains heightened **security** measures, particularly in the major cities. Threat reporting indicates terrorist groups continue to seek opportunities to attack locations where U.S. citizens and Westerners are known to congregate or visit. Terrorists and criminal groups regularly resort to kidnapping for ransom and extortion. Protests against the United States are not uncommon and have the potential to turn violent. Embassies of most western countries, including the United States, United Kingdom, Canada, Australia, and New Zealand Embassies have issued travel advisories recommending against non-essential travel to Pakistan. Consequently, western businesses operating in Pakistan will require extra security measures and should budget accordingly.

The Board of Investment, in coordination with Provincial Investment Promotion Agencies coordinates for "airport-to-airport" **security** for foreign investors. To avail this service, registered foreign investors or bona fide potential investors should make the request to the BOI with adequate notice and details of the itinerary. The service includes coordination with local police for escort and advice on making secure lodging and transportation arrangements.

13. Corruption

Corruption remains widespread in Pakistan, especially in the areas of government procurement, international contracts, and taxation. Giving and accepting bribes are criminal acts punishable by confiscation of property, imprisonment, recovery of ill-gotten gains, dismissal from governmental service, and reduction in governmental rank. In 2013, Pakistan ranked 127 in the Transparency International Corruption Perceptions Index.

Pakistani law provides for criminal penalties for official corruption; however, implementation of the law is ineffective, and officials frequently engage in corrupt practices with impunity. The National Accountability Bureau (NAB), organized under the 1999 National Accountability Ordinance, serves as the highest-level anti-corruption organization, with a mandate to eliminate corruption through awareness, prevention, and enforcement. Initially focusing its efforts on well-known politicians and government officials guilty of gross abuses of power and stealing public funds, the NAB refocused its strategy in 2002 after citizens and human rights groups accused the agency of being a political tool for the detention of former officials and party leaders, as well as serving as a means to deviate from the normal justice system. The NAB struggles with poor funding and limited staffing.

The Competition Commission of Pakistan seeks to prohibit corrupt activities, such as collusive practices, abuse of market dominance, and deceptive marketing. Despite dynamic leadership, active community engagement, and lower-level court decisions against businesses engaged in anticompetitive activities, the Competition Commission is hindered by insufficient government funding and slow progress of its cases in the judicial court of appeals. Corruption is pervasive in politics and government, and various politicians and public office holders have faced allegations of corruption, including bribery, extortion, cronyism, nepotism, patronage, graft, and embezzlement.

A 2007 National Reconciliation Ordinance (NRO), promulgated under former president Pervez Musharraf, provided an amnesty mechanism for public officials who were accused of corruption, embezzlement, money laundering, murder, and terrorism between January 1, 1986, and October 12, 1999. In December 2009, the Supreme Court declared the NRO null and void, and reopened all 8,000 cases against those who had received amnesty, including the president, ministers, and parliamentarians. The Supreme Court decisions about the beneficiaries of NRO are still pending implementation.

Corruption within the lower levels of the police and customs officials is common. Transparency International notes that the major cause of corruption was lack of accountability and enforcement of penalties, followed by lack of merit and low salaries. According to a survey, some police charge fees to register genuine complaints and accept money for registering false complaints. Bribes to avoid charges are commonplace. Critics charge that the appointment of station house officers (SHOs) is politicized.

Widespread allegations of corruption plagued the government’s rental power plant projects (RPP), which were a priority in 2008-2009 to address the country’s acute energy shortage. Citizens and parliamentarians accused government officials of providing financial kickbacks and awarding extravagantly priced rental power plants to their close acquaintances. In December 2010 and January 2011, the Supreme Court found two power companies guilty of receiving more than 970 million rupees (then $11.2 million) in advance payments to provide electricity but failing to commence commercial operations by the agreed date. The court ordered both companies to return the funds advanced, and the government abandoned the RPP power project as a policy priority. The Supreme Court of Pakistan gave a decision against RPPs on March 30, 2012 declaring their contracts null and void and their intentions as mala fide. Currently the National Accountability Bureau is investigating the RPP case.

Anecdotal reports persist about corruption in the district and sessions courts, including reports of small-scale facilitation payments requested by court staff. Lower-court judges lack the requisite independence and sometimes are pressured by superior court judges as to how to decide a case. Lower courts remain corrupt, inefficient, and subject to pressure from prominent wealthy, religious, and political figures. Government involvement in judicial appointments increases the government's control over the court system.

The 2002 Freedom of Information Ordinance allows any citizen access to public records held by a public body of the federal government, including ministries, departments, boards, councils, courts, and tribunals. It does not apply to government-owned corporations or provincial governments. The bodies must respond to requests for access within 21 days. Certain records are restricted from public access, including classified documents, those that would be harmful to a law enforcement case or an individual, or those that would cause grave and significant damage to the economy or the interests of the nation. NGOs criticized the ordinance for having too many exempt categories and for not encouraging proactive disclosure.

Pakistan is not a signatory to the OECD Convention on Combating Bribery, but it is a signatory to the Asian Development Bank/OECD Anti-Corruption Initiative. Pakistan has also ratified the UN Convention against corruption.

14. Bilateral Investment Agreements

Pakistan and the United States began negotiating a Bilateral Investment Treaty (BIT) in 2004. Those negotiations occurred intermittently since then, but are currently stalled. Pakistan has bilateral investment agreements with Australia, Azerbaijan, Mauritius, Bahrain, Bangladesh, Morocco, Belarus, Netherlands, Belgo-Luxemburg Economic Union, Oman, Philippines, Bosnia, Portugal, Bulgaria, Qatar, Cambodia, Romania, China, Singapore, Czech Republic, South Korea, Denmark, Spain, Egypt, Sri Lanka, France, Sweden, Germany, Switzerland, Indonesia, Syria, Iran, Tajikistan, Italy, Tunisia, Japan, Turkey, Kazakhstan, Turkmenistan, Kuwait, U.A.E, Kyrgyz Republic, United Kingdom, Lebanon, Uzbekistan, Laos and Yemen.

The United States and Pakistan have had a bilateral tax treaty in force since 1959. Pakistan also has double taxation agreements with Austria, Canada, Germany, Indonesia, Italy, Lebanon, Mauritius, Poland, Switzerland, Turkmenistan, Kazakhstan, the United Arab Emirates, Belgium, China, France, Greece, Iran, Japan, Libya, Saudi Arabia, Romania, Sweden, Belarus, Hungary, Jordan, Kenya, Kuwait, Malaysia, Netherlands, Nigeria, Norway, Oman, Philippines, Qatar, South Africa, Syria, Tunisia, Uzbekistan, the United Kingdom, Bangladesh, Denmark, Finland, India, Ireland, South Korea, Malta, Singapore, Sri Lanka, Thailand, Azerbaijan, and Turkey.

15. OPIC and Other Investment Insurance Programs

Overseas Private Investment Corporation (OPIC) insurance and financing are available for commercial transactions, and OPIC has an active portfolio of projects in Pakistan. Projects must meet OPIC eligibility guidelines.

16. Labor

The Pakistan civilian work force consists of approximately 60.5 million workers, but this estimate does not include the informal sector or child labor. The majority of the labor force works in the **agricultural** sector (45percent), followed by the **service**s sector (34.2percent), and **manufacturing** (13.8percent). Officially, the unemployment rate hovers around 6percent, but this is widely believed to be significantly understated, and a large number of the employed are underemployed. Pakistan is also an extensive exporter of labor, particularly to the Middle East.

Because of Pakistan's 18th Amendment which "devolved" certain federal power to the provinces, labor law is now under the jurisdiction of the provinces. Punjab's minimum wage is Rs. 9,000 per month ($91), and the other three provinces along with the Islamabad Capital Territory have a minimum wage of Rs. 8,000 per month ($81). Enforcement of labor laws was patchy at best under federal law, and the provinces are in an even weaker position to regulate the labor market. Inspections are almost non-existent, and the low-level labor courts are generally considered corrupt and strongly biased in favor of employers. Furthermore, labor protections do not extend to a majority of the labor force, most notably agricultural workers. Pakistan's compliance with ILO conventions is challenging in the wake of devolution. Multinational employers and exporters often have international certifications that demonstrate that they meet labor obligations, while local businesses often do not. The only significant area of U.S. investment in which workers' rights are legally restricted is the **petroleum sector**, which is subject to the Essential Services Maintenance Act. The Act bans strikes, limits workers' rights to change employment, and affords little recourse to a fired employee, but does allow collective bargaining. However, this Act seldom has been applied.

Criticism of Pakistan's confusing labor laws led to the creation in 2000 of a government commission to revise and consolidate Pakistan's labor legislation. The Industrial Relations Ordinance of 2002 was revised in 2008 and expired on April 30, 2010. The Industrial Relations Ordinance was again enacted by the President on July 18, 2011. Under the 18th Amendment, responsibility for labor regulation and enforcement, in addition to industrial relations, has been devolved to the provinces. All the provinces have enacted the Industrial Relations Acts. According to GOP estimates, union membership consists of approximately 5percent of the industrial labor force and 2percent of the total workforce. The GOP has ratified 34 ILO conventions relating to human rights, workers' rights, and working conditions. The GOP announced labor welfare measures three years back including extending Social Security eligibility to workers earning up to Rs. 10,000 ($101) a month, the establishment of a Complaint Cell to address workers complaints, allowing full wages to workers while on suspension, expanding the coverage of a GOP retirement benefits plan to establishments employing 5 or more workers, increasing marriage and death grants, and increasing workers' eligibility for company profit-sharing awards. This package is being implemented by the provinces. As part of its commitments to the EU under the Generalized System of Preferences (GSP) Plus preferential trade scheme, Pakistan has agreed to ratify and implement 27 core international conventions on human and labor rights, sustainable development, and good governance.

17. Foreign Trade Zones/Free Ports

The GOP established the first Export Processing Zone (EPZ) in Karachi in 1989, making special fiscal and institutional incentives available to encourage the establishment of exclusively export-oriented industries. The GOP subsequently established seven other EPZs in Risalpur, Gujranwala, Sialkot, Saindak, Gwadar, Reko Dek and Duddar. Of these, only Karachi, Risalpur, Sialkot and Saindak are operational. Principal GOP incentives for EPZ investors include an exemption from all taxes and duties on equipment, machinery, and materials (including components, spare parts, and packing material); indefinite loss carry-forward; and access to Export Processing Zone Authority One Window services, including facilitated issuance of import permits and export authorizations. The Export Processing Zone Authority

(EPZA) is authorized to collect taxes totaling between 0.5-1.25percent of total profits when goods are exported, in addition to a 0.5percent development surcharge. There is otherwise an exemption from all federal, provincial, and municipal taxes for production dedicated to exports, and full repatriation of capital and profits for foreign investors is allowed. Investors eligible to establish businesses in EPZs have no minimum or maximum limits on investment. However, despite the substantial incentives offered, most of these zones have failed to attract significant investment. The GOP adopted Special Economic Zones (SEZ) legislation in 2012. The SEZ Law aims at creating industrial clusters with liberal incentives, infrastructure and investor facilitation services to reduce cost of doing business. The law allows private parties to establish these zones in addition to public/private partnerships used for the establishment of SEZs. The SEZs have yet to attract significant foreign investment, as many suffer from a lack of reliable gas, electricity and water supply.

The GOP offers incentives for other categories of export manufacturing. An Export-Oriented Unit (EOU) is a stand-alone industrial concern that exports 100percent of its production; it is allowed to operate anywhere in the country. EOU incentives include duty and tax exemptions for imported machinery and raw materials and duty-free import of two vehicles per project.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (Millions U.S. Dollars)	Fiscal Year 2013 (July-June)	237,000	2012	225,100	http://www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (Millions U.S. Dollars, stock positions)	Fiscal Year 2013 (July-June)	319.1	2012	218	(BEA) click selections to reach. • Bureau of Economic Analysis • Balance of Payments and Direct Investment Position Data

					• U.S. Direct Investment Position Abroad on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
Host country's FDI in the United States (Millions U.S. Dollars, stock positions)	Fiscal Year 2013 (July-June)	92	2012	66	(BEA) click selections to reach • Balance of Payments and Direct Investment Position Data • Foreign Direct Investment Position in the United States on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
Total inbound stock of FDI as % host GDP	0.13%	Fiscal Year 2013 (July-June)	0.10%	2012	

- Source of Host Country: State Bank Of Pakistan http://sbp.org.pk/ecodata/index2.asp

TABLE 3: Sources and Destination of FDI

Pakistan 2012

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			**Outward Direct Investment**		
Total Inward	17,726	100%	Total Outward	1,279	100%
United Kingdom	4,572	26%	United Arab Emirates	253	20%
Switzerland	3,470	20%	United Kingdom	96	7%
United Arab Emirates	1,867	11%	Bangladesh	92	7%
United States	1,192	7%	Bahrain, Kingdom of	68	5%

Netherlands	763	4%	Oman	65	5%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: http://cdis.imf.org

TABLE 4: Sources of Portfolio Investment

Pakistan, End June 2013

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			**Equity Securities**			**Total Debt Securities**		
World	445	100%	World	155	100%	World	289	100%
Saudi Arabia	152	34%	Saudi Arabia	126	81%	United Arab Emirates	58	20%
United Arab Emirates	62	14%	Virgin Islands, British	12	8%	Qatar	30	10%
Qatar	30	7%	United Kingdom	9	6%	Saudi Arabia	27	9%
United Kingdom	21	5%	United Arab Emirates	4	2%	Japan	19	7%
Japan	19	4%	Cayman Islands	3	2%	Brazil	16	6%

Source: http://cpis.imf.org/

Summary - Sources for USG/International Statistics:

U.S. Bureau of Economic Analysis (http://www.bea.gov/international/index.htm) produces two types of direct investment statistics:

- International transactions & direct investment position statistics
- Activities of multinational enterprise statistics

Can be used to assess the effects of multinationals in local economies

http://www.treasury.gov/resource-center/data-chart-center/tic/Pages/index.aspx

- Treasury International Capital (TIC) System collects data on portfolio investment – companion data to direct investment, less than 10percent ownership.
- Data collected on banking, securities, and non-bank assets and liabilities.
- Country-level detail available.

http://cdis.imf.org/

- IMF compiles data on direct investment from and to individual countries.
- Publishes cross tabulations of data.
- Users can see at a glance multi-country direct investment data.
- Metadata, or methodology, also available.
- One stop shopping for direct investment position data

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments

Legal system:

Common law system with Islamic law influence

International organization participation:

ADB, ARF, ASEAN (dialogue partner), C, CICA, CP, D-8, ECO, FAO, G-11, G-24, G-77, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IDB, IFAD, IFC, IFRCS, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), LAIA (observer), MIGA, MINURSO, MONUSCO, NAM, OAS (observer), OIC, OPCW, PCA, SAARC, SACEP, SCO (observer), UN, UNAMID, UNCTAD, UNESCO, UNHCR, UNIDO, UNISFA, UNMIL, UNMIT, UNOCI, UNSC (temporary), UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Section 6 - Tax

Exchange control

For further information:

http://www.sbp.org.pk/Updated%20FE%20Manual/chapters/chapter1.htm

Double Taxation Treaties in force

Austria	Morocco
Azerbaijan	Nepal
Bahrain	Netherlands
Bangladesh	Nigeria
Belarus	Norway
Belgium	Oman
Bosnia and Herzegovina	Philippines
Brunei	Poland
Canada	Portugal
China	Qatar
Denmark	Romania
Egypt	Saudi Arabia
Emirates	Serbia
Finland	Singapore
France	South Africa
Germany	Spain
Hungary	Sri Lanka
Indonesia	Sweden
Iran	Switzerland
Ireland	Syria
Italy	Tajikistan
Japan	Thailand
Jordan	Tunisia
Kazakhstan	Turkey
Kenya	Turkmenistan
Korea (Republic of)	Ukraine
Kuwait	United Arab
Kyrgystan	United Kingdom
Lebanon	United States
Libya	Uzbekistan
Malaysia	Vietnam
Malta	Yemen
Mauritius	

Methodology and Sources

Section 1 - General Background Report and Map

(Source: CIA World Factbook)

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes PKF International)

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Gary Youinou

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