

Making industry more competitive: PBC drafts 'Charter for Pakistan economy'

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Pakistan Business Council (PBC)-a research-based business advocacy body, has drafted 'Charter for Pakistan Industry' which it said would assist the PTI-led federal government in its efforts to improve the competitiveness of the industry and put it on sustainable growth trajectory.

Following steps are required for the government to make industry more competitive and to frame an effective policy framework.

Alignment of government policies: The ECC will establish a task force, which with the Business Advisory Council, will identify conflicts in existing government policies which create complexity, raise cost and make doing business difficult. The focus of this exercise will be to promote employment, ideally through value-added exports and by encouraging import substitution. It will also identify ways to create a level-playing field by broadening the tax base.

Fiscal Policy: Fiscal policy making will be separated from tax collection. Fiscal policy, developed with private sector input, will address the medium to long-term objectives of creating and sustaining the scale and competitiveness of industry as well as raising the country's tax revenues. Tax collection under the FBR will be made more effective by a radical change in leadership, induction of fresh talent and the use of technology, as well as through simplification of returns and the reengineering of processes and targets to reduce the risk of harassing tax payers. Cases for audit will be selected on a transparent basis and conducted by experts, independent of the FBR.

Fiscal policy will promote capital formation, accumulation, consolidation and investment. Formation of groups leads to scale. Groups will be promoted by restoring the provisions enacted in the Finance Act 2007. The disparity in tax rates between companies and unincorporated entities, which actively discourage corporatization and hence scale, will also be addressed.

All presumptive taxes will be phased out: Everyone engaged in a taxable activity will have to file a tax return and pay tax on profit. Tax evasion will be made a criminal offence.

Cascading import tariffs will ensure that raw materials and intermediate items, not available in Pakistan, are taxed at a lower rate than finished products to encourage local manufacturing. Anomalies in Regulatory Duties on inputs for the manufacturing industry will be removed promptly.

The federal government will engage with the provincial governments to address the growing complexity and conflicts resulting from the devolution of powers. The aim is to establish one National Tax Authority, bring down the number of taxes and simplify the payment and filing of returns.

The government is committed to bring the corporate tax rate down by one percent each year until it reaches 25 percent.

To discourage tax evasion, the withholding rates for non-filers will be increased to three times the rate applicable to tax filers. The FBR's primary key performance target will henceforth be tax collected from

new tax payers, with total tax collected as a secondary target. Tax refunds outstanding will not be included in the tax collection or fiscal deficit targets. Tax, in advance of due date will not be sought. The effectiveness of tax collectors will be judged by the number of cases won in the courts. Legislation will be introduced to remove lacuna in the law which allows cases to drag on for decades.

Trade Policy: All trade agreements will be renegotiated, and future arrangements will ensure, the maximization of Pakistan's value-added exports, promotion of jobs in the country and the optimization of tax revenues.

The coordination between the Ministry of Commerce and Pakistan Customs will be improved to stem the rampant misdeclaration of imports, under-invoicing and smuggling. The federal government will work with provincial governments to aggressively deal with the blatant sale of smuggled products. Pakistan will enter into electronic exchange of trade data with all leading trade partners to stamp out under-invoicing. The National Tariff Commission will be made more responsive to the interest of domestic industry.

Exports: Cost of energy, especially to export industry will be brought down to levels required to be globally competitive. Exports will be zero-rated for all taxes to avoid the need for refunds. Tax refunds accumulated will be settled no later than September 30, 2018. Export Rebates will be automated to coincide with the realization of foreign exchange proceeds. Pakistan will always maintain a competitive exchange rate. The government will fast forward schemes to provide pre and post export refinance and export credit guarantees. It is essential for Pakistan to broad base its exports, both in product profile and destination markets. TDAP will be empowered to help achieve this.

Housing: Construction of low and medium cost houses will be encouraged to alleviate the acute shortage of housing stock, generate employment and create a positive multiplier impact on the economy. The government will engage the provinces to address the opaqueness of titles and improve the collateralization potential. It will also work with the State Bank of Pakistan and multilaterals to create long-term mortgages at affordable cost. Foreclosure laws will be reviewed to ensure an equitable balance between lender's and borrower's rights.

FDI Policy: The FDI policy will henceforth focus on export generating industries, on technology oriented sectors and on those industries for which the Pakistan private sector lacks capital and risk appetite, such as infrastructure and oil and gas exploration. Concessions will also be tailored to promote joint ventures and public listing of foreign controlled businesses.

Agriculture: The distortion created by incentivizing growth of sugar-cane and wheat, at the expense of cotton (required by the textile industry), and oil-seeds (deficiency of which forces imports exceeding US\$ 3.5 billion annually) will be removed. An Agriculture Emergency will be declared to increase the per acre yield of the major crops and to promote employment and exports. Likewise, dairy and meat yield and quality will be improved to provide export potential.

National Standards: The government will work with the provinces to ensure one national standard in conformance with global best practice for products, services and for the environment. Provincial authorities will ensure compliance. Harmonization of standards will reduce complexity, provide scale and help improve competitiveness.

SMEs: The government is committed to promoting small and medium sized enterprises. Provision of bank credit through credit guarantee schemes, especially in agriculture and for export oriented SMEs (and those that supply larger exporters), will be facilitated. Larger private sector businesses and State Owned Enterprises will be incentivized to incorporate more SMEs into their value chains. Regulatory constraints that limit the growth of private equity investment will be removed.

The ICT Sector: The government will promote the ICT sector as part of its policy to right-position Pakistan in the digital and knowledge economy. Taxation burden on broadband will be reduced and every nook and corner of the country will be internet enabled. Computer programming will be made part of school curriculum. Software exports, Business Process Outsourcing and Call Centers will be encouraged

through a comprehensive alignment of federal and provincial policies. Larger bricks and mortar businesses will be incentivized to invest in ICT startups. Obstacles that thwart Pakistani businesses in e-Commerce, especially in exports, will be removed. Efforts will be redoubled to deploy Fintech to include the unbanked and the under-banked population in the country's economy.

Skill Development: There is significant room to improve the skill base to enable industry to be globally competitive. The government will encourage public private partnerships and the deployment of WWF and WPPF towards upskilling and vocational training. A special focus on promoting women's employment will include support for day-care centres.

CPEC SEZs: To make CPEC truly a game changer, investment in SEZ's will be promoted along a "plug and play" basis for all investors, provided it results in net incremental addition to jobs and positively impacts the external account. Concessions however will be tailored so as not to undermine industry already established elsewhere in the country.

The Environment: Pakistan is a water-stressed country. It is also vulnerable to the havocs of climate change. In pursuit of its commitment to the United Nations Sustainable Development Goals, the Government will work with the private sector to promote greater responsibility towards the environment. In particular, it will support initiatives for water and energy conservation and the reduction, recovery and recycling of materials.

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