Boosting Pakistan’s Export Competitiveness: Private Sector Perspectives

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Proceedings from Round Table Meetings held in
Islamabad, Peshawar, Karachi and Lahore
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1. Summary

Global and regional trade integration offers Pakistan tremendous potential in driving and sustaining growth and poverty reduction. Despite this potential, trade has not been effectively leveraged to catalyse growth in Pakistan in recent years. Trends in relative trade and competitiveness have been worrying, with export earnings declining 20 percent over the period FY2011-2017 and market share contracting by 1.45 percent annually. Understanding the constraints on trade and competitiveness from the perspective of the private sector engaged in export activities is critical to developing and implementing effective trade policy.

To support the Government of Pakistan in the preparation of its new Strategic Trade Policy Framework (2018-23), the World Bank Group conducted a series of private sector stakeholder consultations with current, past and potential Pakistani exporters in the manufacturing, agro processing, and services sectors. A total of 254 private sector representatives participated in four separate events organized in different provinces between September and November 2017.

This note summarizes the main concerns expressed by the private sector during these consultations. The note’s main objective is to contribute to a fruitful private-public dialogue which can ultimately lend inputs for trade policy. The role of the World Bank Group in this respect is to bring together the private sector and the public sector, so that the constraints that the former face are presented to the latter. As such, the challenges to be summarized here are those identified by the key firms present during the private sector engagement meetings, during the fourth quarter of 2017, and not by the World Bank Group.

Key challenges to export competitiveness identified by the private sector via these consultations include:

- a) regulatory constraints at federal and provincial government levels,
- b) high cost of doing business, including energy costs and import tariffs,
- c) inadequate trade facilitation and supporting instruments,
- d) lack of coordinated support from institutions responsible for export promotion and help towards market and product diversification,
- e) weak availability of credit for exports, particularly for potential and new exporters, and
- f) an exchange rate regime that is perceived to reinforce the anti-export bias of the de facto trade policy.

Participating business associations also called for a detailed evaluation of reasons due to which intended benefits from Pakistan’s free trade agreements (FTAs) and European Union’s Generalised Scheme of Preferences (GSP+) could not be achieved.
2. Background

The round table meetings were held between the period September to November 2017 in Islamabad (26th September), Peshawar (19th October), Karachi (9th November), and Lahore (14th November). The meetings had participation from all sectors of the business community including agriculture, manufacturing and services sub-sectors. The meetings were organized in collaboration with relevant business associations including Federation of Pakistan Chambers of Commerce and Industries, Islamabad Chamber of Commerce and Industries, Lahore Chamber of Commerce and Industries and Sarhad Chamber of Commerce and Industries.

The meetings also had participation from sectoral associations e.g. All Pakistan Textile Mills Association, Pakistan Pharmaceutical Manufacturers Association and Pakistan Software Houses Association for IT and ITES.

The key objectives of these meetings were:

a. To identify constraints being faced by existing exporters, disaggregated by minor or major limitations that exporters are confronting

b. To identify barriers that potential exporters, particularly small and medium enterprises (SMEs) are facing while engaging in trade

c. To point out regulatory, policy, infrastructural and knowledge gaps that are averting exporters from engaging in trade and

d. To identify major restrictions and barriers that are being faced by existing and potential women exporters.

The interventions and recommendations from these consultations will be presented to Ministry of Commerce as a key input for Strategic Trade Policy Framework (2018-23).

3. Methodology

The team conducted a detailed assessment of past studies providing insights into macro and micro level constraints impeding competitiveness of key export-oriented industries in Pakistan. Current data on exporting sectors and ‘direction of trade’ information was also studied vis-à-vis competitor economies. This preliminary desk and literature review exercise helped in informing our consultations and round table meetings with the private sector. The heterogeneity of issues also motivated the team to host consultations at various key exporting destinations of Pakistan.

Identification of enterprises: To acquire knowledge on issues faced by a wide range of businesses, for each province, we split the invited enterprises for consultation across four groups. These included current exporters, past exporters, services sector and potential exporters. There was no preference of pre-selecting
any sectors and therefore the invitation was sent out to the meta directory of exporters in each of the collaborating chambers of commerce and industries. It was also important to ensure the presence of past exporters i.e. those who are still active in business however are unable to remain an exporter due to internal or external constraints. The category of ‘potential exporters’ included representation from small and medium enterprises (SMEs). Again with in the SMEs there was no preference to pre-select any of the sectors and therefore we had sent out an invitation to the office bearers of Chambers of Small Industries. The presence of large exporters was ensured with the outreach provided by Pakistan Business Council.

With help of the Board of Investment (BoI), Trade Development Authority of Pakistan (TDAP) and Small and Medium Enterprises Development Authority (SMEDA) we also ensured the presence of businesses persons (or entities) who are representing Pakistan in inter-governmental working groups hosted by multilateral and bilateral trade forums. This included leadership (or their nominee) from Pakistan Afghanistan Joint Chamber of Commerce & Industry, India Pakistan Business Council, Iran Pakistan Joint Business Council etc.

**Provincial participation:** A key reason to host the meetings at various exporting hubs of Pakistan with in three different provinces was to document the heterogeneity of issues faced by different regions. While we were able to meet with business persons from Khyber Pakhtunkhwa, Punjab and Sindh provinces, the business persons from Balochistan participated in the Islamabad meeting. The representation from Lasbela district of Balochistan was also ensured in the Karachi meeting. In our opening session of all meetings, Ministry of Commerce, Government of Pakistan was invited to explain the objectives of this exercise and expected outcomes.

The opening session (see programme at annexure 1) which also included a detailed presentation by WBG titled ‘Unlocking Private Sector Growth through Increased Trade and Investment Competitiveness’ also had presence from various other government bodies including State Bank of Pakistan, BoI, TDAP, SMEDA, and provincial Planning & Development Departments. The latter sessions however only focused on private sector’s own discussion based on Chatham House rule i.e. participants were free to exchange ideas and possibly use the information received as they will, but not reveal the identity nor the affiliation of any other participant making interventions.

**Organisation of breakout activity:** After the WBG presentation, a brief question and answer session was allowed. This was followed by clear guidelines to all the participants how to split across their respective groups and undertake (group) discussion. The participants’ name was shown on the screen under any one of the categories according to their current status i.e. current exporter, past exporter, services sector, or potential exporter. The format of registration form (annexure 2) allowed us to make the group wise distinction. Once seated they were provided with one group questionnaire for discussion and preparing a (group) response. Any participant wishing to provide their own industry’s perspective or individual response could also complete the same questionnaire independently, besides also contributing to the group interventions.

All groups had one hour to complete their discussion around questions (provided at annexure 5). They were allowed additional time to prepare group presentations. For the remaining time of the meeting, each group was provided at least 20 minutes (followed by question and answer session of 5 minutes) to present their perspective.

**Reporting of proceedings and way forward:** While the team aims to present findings from the round table meetings to the Ministry of Commerce as a key input for Strategic Trade Policy Framework (2018-23), the
same will also be presented in a national-level public-private policy symposium which will have presence of leading business leaders, relevant government officials, and noted trade economists from Pakistan. A key expectation from this symposium would be to present the consolidated findings from across Pakistan and validate the final recommendations being put forward to Ministry of Commerce, Government of Pakistan.

4. Key challenges to export competitiveness

The qualitative responses come from 254 respondents who had participated in Islamabad, Peshawar, Karachi, and Lahore meetings. The male-female ratio across the overall sample was 3:1, however we may note that this is not representative of the enterprise universe in Pakistan. Around 71 percent of the participants were from the manufacturing and agro processing sectors (Figure 1) while the remaining were from the services sector. Within the manufacturing sector, key sub-sectors represented at the meetings include: textile, steel, pharmaceuticals, cement, auto parts, chemicals, oil and gas, construction material, fast moving consumer goods, and engineering. The food processing segment was also represented in all meetings. From the services sector there was a concentration of firms from information and communication technologies, finance and insurance, transport, health care, education and capacity building, and consulting services.

In terms of current status of businesses, 35 percent were current exporters, 23 percent were past exporters, 22 percent were from the services sector and remaining 20 percent were potential exporters. As per SMEDA's
employment size criteria, 72 percent of our participants represented SMEs, while 28 percent were from larger entities.¹

The key challenges highlighted during our meetings are categorized below under select broad categories:

- **Energy costs:** There needs to be a policy to put a cap on the gas and electricity tariffs faced by exporting entities. The frequent changes in rates of utilities have adversely affected the forecasted cash flows and result in reduced competitiveness vis-à-vis peer economies. The current exporters suggested that gas and electricity tariffs should be in-line with the competitor economies e.g. Bangladesh, India and Vietnam (cross-country rates of gas and electricity provided in Annexure-4). The potential exporters explained that while the supply of energy has improved over the past 12 to 18 months, however cost per unit has not come down.

- **Distortions in taxation:** The tax regime faced by exporters and importers of raw materials and machinery also requires certainty in the medium term. Recent changes in tariffs and regulatory duties, without a comprehensive discussion in the parliament or with the business community have increased the cost of trade across the country.

  The current exporters suggested that the general sales tax (GST) and other tax related rebates must be provided on all exports through an automatic adjustment (as per the report of Tax Reform Commission) and exporters should not have to repeatedly knock on the doors of Federal Board of Revenue (FBR) to settle refund amounts.

  The ‘potential exporters’ group in Lahore came up with specific tax-related interventions which could help bring down cost of compliance for SMEs. They explained that there is a need to reduce GST, tariffs and regulatory duties on imported intermediate goods. Furthermore, the total number of taxes faced by SMEs at the federal, provincial and local level currently stands at 56 as per a 2015-16 exercise by the Bol. These may be consolidated to bring down compliance costs. To encourage formalization of SMEs in Balochistan and Khyber Pakhtunkhwa, it was suggested that documentation-related complexities (at the time of registration and renewal with Securities and Exchange Commission of Pakistan, FBR, provincial tax authorities, and municipal regulatory bodies) in the current company incorporation and taxation regime may be rationalized.

  The manufacturing sector exporters, particularly from Lahore and Karachi explained that the mandate of Tax Reform Commission may be expanded to see how the role of FBR can be transformed into an entity which helps manufacturing sector’s exports. Currently over two-thirds of the overall burden of government revenue collection falls on the industrial manufacturing sector. The tax exemptions to large agriculture and agro-processing businesses may be revisited.

- **Financial intermediation:** The lack of adequate banking channels with neighboring countries (e.g. Afghanistan, Iran, and India) and non-traditional export destinations e.g. central Asian economies is not letting exporters realize their potential. Also, the existing banking system of Pakistan must be made compatible with key export destinations in order to ensure that there are no undue financial barriers to trade.

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¹ An entity employing up to 250 employees is termed small and medium enterprise.
The business community from disadvantaged and conflict-hit areas of Balochistan and western Khyber Pakhtunkhwa highlighted the lack of tax-free raw material imports and tax holidays to restart industrial growth. The micro, small and medium enterprises (MSMEs) in these areas have demanded a policy of preferred purchase across government procurement, however this may require changes in the rules being currently followed by Public Procurement Regulatory Authority of Pakistan.\(^2\)

It may also be difficult of MSMEs to complete the traditional compliance requirements of financial institutions for accessing credit for working capital and fixed investment. Examples from ASEAN economies were highlighted where banks were encouraged to customize their credit products, simplify the process of application and offer flexible payback options for MSMEs. However, it was noted that such customization should also include guarantees by the government which can save MSMEs from collateral requirements. Similarly, the central bank will need to consult MSMEs, many of whom may be potential exporters, before introducing any new financial services in order to ensure appropriate inclusion and uptake.

The past exporters explained that the financing under State Bank of Pakistan's Export Finance Scheme\(^3\) and Long Term Financing Facility (LTFF)\(^4\) should be expanded for past exporters currently failing to regain their market.

The services sector and potential exporters from this sector explained that the Central Bank regulations on lending procedures for services sector exporters need to be updated in view of the current difficulties faced by this sector.\(^5\) The State Bank of Pakistan's 'Prudential Regulations for SME Financing' require more detail on support to services sector start-ups with a view to enhance their exporting capacities.

- **Customs processing:** The time taken for custom clearance must be reduced in order to facilitate exports, especially for perishable items.\(^6\) In the case of delays in clearance of perishable items, there must be a mechanism of public-private risk sharing. The automated system being used by the customs department until now has shown mixed performance. The customs software at land route trading posts often suffers due to lack of efficient internet connectivity. This allows officials to resort to the manual customs processing in turn also opening the doors for rent seeking.

- **Exchange rate regime:** The State Bank of Pakistan should convene a quarterly public private working group to discuss recommendations on the prevalent exchange rate management. Currently there are varying views with in the government regarding the overvalued exchange rate.

The current exporters suggested that an overvalued exchange rate should be allowed to gradually adjust to its equilibrium value. This will benefit the key export-oriented industries in the longer run. The management of exchange rate policy should also take in to account the fast changing value of currencies in the competitor economies.

\(^2\) The term ‘preferred purchase’ refers to additional points (or preference) which may be given to these suppliers during the competitive bidding process.
• **Export promotion infrastructure:** There is a need for the trade associations, chambers of commerce and industry and the federal and provincial governmental trade promotion departments (e.g. provincial Boards of Investment, departments of industries, etc.) to develop their capacity to research non-traditional markets abroad and possible future export destinations and products. This may include conducting road shows, expositions, etc. to help in marketing export products on the global market, the collection of requirements regarding quality standards, and ancillary requirements for developing technical and managerial skills. A diverse market may enhance the probability of exporting all types of goods. The trade offices in embassies of Pakistan may also aid in identification and promotion of potential exports in their respective regions. The business community was not satisfied with the outreach of commercial and trade officials posted in Pakistani embassies abroad. They should be given annual targets, failing of which a replacement should be considered.

• **Transport and warehousing:** There needs to be a policy to put a cap on the transporting and warehousing costs faced by exporters. One way to achieve this may be through lowering the burden of taxes (and other levies) on transport and warehousing sector in return for certainty and lowering of price by private operators. Currently, several dry ports across the country are not effectively operational. Furthermore, the travel and dwell time faced by consignments is uncertain due to bottlenecks in in-land- and border-related trade infrastructure.

The current exporters suggested that there is a need to review and lower (through policy changes) costs of transport and transit fees faced by the exporters. The provincial and local toll taxes also contribute to higher costs of moving the consignments. Several such taxes or levies can be consolidated. In this regard, this group was concerned regarding weak consultation around National Transport Policy 2017. This policy may be amended to include specific provisions which bring down the costs in transport and warehousing sectors.

• **Fiscal support for exporters:** All fiscal incentives or subsidy packages provided to the exporters should be evidence-based. There should be a careful evaluation of past textile export packages provided by the Prime Minister – to see how much such packages have delivered in the past. Most export packages suffer from weak targeting. It was suggested by current exporters in Khyber Pakhtunkhwa that a scorecard method at the Securities and Exchange Commission of Pakistan could lead to a clearer identification of new and potential exporters. Fiscal support should be strictly targeted towards these groups. Furthermore, such support should be time bound and with clear export targets in volume or value (of exports).

• **Role of FTAs and evaluation of GSP+**: An evaluation is also required to see why Pakistan has not been able to achieve the benefits at a scale envisaged after the awarding of the European Union's GSP+ arrangement. The representatives of FPCCI emphasized that all FTAs and preferential trade agreements (PTAs) may be carefully reviewed in the interest of local manufacturing industry and services sectors. This is particularly important at this stage as Pakistan is negotiating the next phase of China-Pakistan FTA.

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The past exporters explained that their industries could not compete after signing of FTAs with some very large economies. These included businesses from plastics, furniture, wood and wood products, paper and paper board. Such FTAs should be revisited and revised to allow a level playing field to the local manufacturing industry.

The services sector participants in Lahore suggested that the revision of China-Pakistan FTA should include provisions for services and foreign direct investment and agreement on double taxation settlement.

- **Agriculture input costs**: The uncertainty around agricultural imports needs to be cleared. Several imports (including inputs) are regulated and only allowed for a temporary period and at uncertain rates of import tariffs. This will send a strong signal to farmers of major and minor crops who face the risk of large price variations under an ever-changing trade policy towards the crop, livestock, forestry and fisheries sectors. The indirect taxes on agricultural inputs e.g. general sales tax also need rationalization. Currently, agriculture inputs are exposed to cascading due to lack of an effective value added tax mechanism.\(^8\)

- **Gaps in Skilled and Semi-skilled Labour market**: The current exporters explained that the technical and vocational education training (TVET) institutes need to respond to the needs of local manufacturers. Most TVET institutions are focused on producing semi-skilled and not skilled labour.

  The ‘potential exporters’ group in Islamabad also explained that the incubators at the engineering universities need to be encouraged through changes in provincial development policies (e.g. Punjab Growth Strategy) and specific programmes under the provincial annual development plans to help start-ups in manufacturing sector to sustain the initial period of their existence and also become exporting entities over the medium term.

- **Issues specific to services exports**: The Services Sector Export Development Strategy formulated by the Ministry of Commerce may be revisited and after consultation with all services sector stakeholders, a revised strategy may be approved by the Cabinet. Given a large skilled workforce in the information technology sector, the government should prioritize IT-enabled services across the services activities (e.g. trade in IT-enabled health services and medical tourism).

  The Services Sector Export Development Strategy should also consider new sectors where the cost of skilled professionals within Pakistan is lower in comparison to peer economies (e.g. in provision of medical transcription services). Special Economic Zones (SEZs) are also required for services sectors along with tailored facilitation such as incubation services for start-ups. Most services sector start-ups or exporters are dependent upon internet penetration, therefore overall infrastructure gaps which prevent IT-connectivity needs to be addressed in rural and even peri-urban areas.

  Consultation processes and dialogues with trade bodies must involve all the stakeholders in the services sector. Currently there is no structured mechanism for public-private dialogue with the services sector, neither at the federal nor provincial government level.

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\(^8\) Cascading here refers to tax burden that is applied at every stage in the supply chain, without any adjustment for the tax already paid at earlier stages. This distorts the production decisions and increases cost of doing business.
• **Gender-specific barriers to trade:** The problem of exclusion of women from mainstream trade policy discourse in Pakistan was highlighted as a key concern. This was also cited as a critical reason as to why gender-specific barriers to expansion of women businesses and women’s participation in trade have not been addressed during the recent past. A key demand of most current women exporters is greater access to information and networking.

The potential women exporters felt that the women chambers of commerce and industries (CCIs) still lacked the capacity to guide their members towards becoming exporters over the medium to longer run. The city-specific chambers of commerce and industry and federation of CCIs has still not allowed adequate representation of women at senior levels of management. The relevant wing which regulates CCIs at the Ministry of Commerce has also not sent strong advice to chambers and associations to make adequate representation mandatory.

The potential women exporters also expressed the desire that TDAP subsidize the participation of (women) entrepreneurs from disadvantaged regions of Balochistan and Khyber Pakhtunkwa.

The participants in the Lahore meeting highlighted gender-specific non-tariff barriers (NTBs) and called for safe amenities in land-based trade check posts. They see vast potential of trade with India through Wagah border, particularly in sectors such as textiles, jewelry, bridal dresses, cosmetics, processed food and herbal products. Therefore, they recommended one-window trade and tax facilitation centers along with converting all regulatory compliance processes to online.

The past (women) exporters informed that a key cost which they were unable to bear relates to testing and certification requirements. In their opinion, there was no guidance available through the government channels on how to adapt with the fast changing certification requirements abroad. They cited the example from other South Asian countries where there are one-stop web portals and telephonic hotlines to guide women and build their capacity to cope with this issue.9

As potential women borrowers or applicants for export finance continue to face barriers in accessing formal banking channels, therefore it was highlighted that the necessary training of banking sector officials on gender-sensitive banking operations may be part of the central bank’s prudential regulations.

• **Certification requirements:** The past exporters informed that getting product compliance and relevant certification to remain in traditional markets and penetrate in non-traditional markets has become an expensive exercise. The facilitation programmes from other South Asian countries were again cited. During the meetings, no specific details or examples regarding such programmes were discussed. It was revealed that a key reason why Pakistan was unable to achieve the anticipated gains from GSP+ was weak knowledge of certification requirements particularly for non-textile items in which Pakistan enjoys market access.

• **Regulatory burden:** The group of past exporters during the Islamabad meeting suggested that the National Accountability Bureau10 may constitute a working group to study regulatory burdens on key export-oriented industries, costs of delayed business prosecution and corruption in dealing with

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9 For example see SAARC Chamber Women Entrepreneurs Council, [http://www.scwec.com](http://www.scwec.com)
10 The National Accountability Bureau is Pakistan’s apex anti-corruption organization.
government, particularly faced by SMEs not able to afford such transactions costs. For example, reducing the human interface in federal and provincial tax departments was cited as an example which could bring down costs related to corruption.

The potential exporters highlighted that the number of days and procedural steps required to obtain connection of utilities needs to be reduced. Similarly, for plant expansion and land acquisition, application-and-wait time for licenses and permits may be reduced. The members of this group in Lahore meeting explained that several businesses were waiting to get electricity connections even after a wait of 12 months in the Sundar Industrial Estate – a flagship venture of Punjab Industrial Estates Development and Management Company.

5. Province specific prioritization of issues

There were variations across provinces in terms of key priority issues hindering competitiveness. In the case of Sindh, main challenges included: a) dealing with tax authorities, b) lack of required skills in the labour market, c) weak role of business associations in demanding reform; providing awareness regarding their dialogue with the government and demanding facilitation, d) high tariff rates on imported inputs, e) lack of support for research and development in current and potential exporting sectors, f) weak banking channels at potential export destinations.

A key concern during this meeting was that Sindh is the only province which is unable to trade with neighbouring country via land route. On the utilities and related inputs, the members of potential exporter group felt that the formal businesses are now receiving uninterrupted energy supply, however the cost of electricity and gas is high vis-à-vis competitor economies.

In the case of Punjab, main challenges were: a) an uncertain post-18th constitutional Amendment regulatory regime faced by businesses - including the municipal, environmental and labour permits requirements, b) shortage of labour with required skills, c) complex tax regime for small exporters, d) lack of government support towards: timely coordination (within government) of export promotion measures, technological advancement support, and expansion of marketing efforts in potential export destinations.

The business associations from Punjab wanted greater interaction with their counterparts in China and India to allow exchange of ideas regarding future trade and investment cooperation. They were particularly concerned over lack of consultation on the free trade agreement between China and Pakistan currently under revision. Current exporters felt that exports to India could be increased via land routes if government is willing to negotiate the NTBs faced by Pakistani exports in lieu of effectively addressing those NTBs faced by Indian merchandise in Pakistan. The issue of lack of transparency in exchange rate management was also highlighted as a key concern – something which heightens expectations of a future free fall of the Pakistani rupee. There was also a desire that annual evaluation of trade missions based in Pakistani embassies abroad should be carried out against a baseline and published for the knowledge of the business community.

For example see WBG’s doing business in Pakistan analysis here: http://www.doingbusiness.org/data/exploreeconomies/pakistan
In the case of Khyber Pakhtunkhwa, while issues faced in compliance with taxes and refunds remained a key concern (which is also preventing formalisation of businesses), the production side barriers to adoption of new technologies was highlighted. This could be a limiting factor as regards participation of enterprises from Khyber Pakhtunkhwa in China-Pakistan Economic Corridor (CPEC) programmes. This was followed by several other challenges including: a) lack of labour as per demands of the changing production requirements, b) weak coordination of federal and provincial government to deliver export promotion packages for Khyber Pakhtunkhwa’s business community, c) weak awareness regarding government facilitation in marketing, testing services, and visa facilitation, d) overvalued exchange rate, and e) expensive and uncertain supply of energy. Several sector-specific associations were concerned regarding the arbitrary imposition of regulatory duties.

Some other challenges include: lack of effectively operational dry ports in Khyber Pakhtunkhwa, fast changing state policies towards transit trade with Afghanistan (a key concern of services sector exporters), damage occurring to merchandise being traded via Torkhum border, and slow progress in the area of mineral development – a sector which the local business community feels can bring medium to long term dividends.

Before moving to provincial meetings the team had also conducted a round table consultation in Islamabad, where the business community from Balochistan province had also participated. Again, apart from the usual constraints related to taxation, energy and the exchange rate, a key concern was the manner in which Pakistan was trying to pursue FTAs with Brazil, South Korea, Turkey, Thailand and some other trade partners. The business associations were concerned that broad based consultations had not taken place before the framework meetings of these FTAs. Similarly, the representatives of manufacturing associations showed their concern at the lack of information available to local businesses regarding opportunities in Gwadar and SEZs under CPEC. The business community in Balochistan also wants export promotion as a key target in the recently announced ‘Prime Minister’s 10-year Uplift Package’ for the province.
Figure 3: Key response words from Peshawar Round table meeting on 19th October, 2017

Figure 4: Key response words from Karachi Round table meeting on 9th November, 2017
Figure 5: Key response words from Lahore Round table meeting on 14th November,