PROJECT REPORT

RETHINKING FOREX GOVERNANCE AND FDI IN PAKISTAN, UNLOCKING NEW OPPORTUNITIES.

Issues And Solutions

Project of SAZH Consulting LLP and The Asia Foundation

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LIST OF ACRONYMS

	ACRONYM
Anti-Money Laundering Act, 2010	AMLA
Anti-Money Laundering Laws	AML
Banking Policy & Regulations Department, State Bank of Pakistan	BPRD
Bilateral Investment Treaties	BIT
Board of Investment	BOI
Certificate of Deposit of Foreign Currency	COD
Customer Due Diligence	CDD
China-Pakistan Economic Corridor	CPEC
Economic Freedom of World	EFW
Electronic Credit Information Bureau	eCIB
Financial Action Task Force	FATF
Financial Monitoring Unit	FMU
Foreign Direct Investment	FDI
Foreign Exchange Management Act, 1999 (India)	FEMA
Foreign Exchange Manual	FEM
Foreign Exchange Regulation Act, 1947	FERA
Gross Domestic Product	GDP
Information Technology	IT
Intellectual Property Rights	IPR
International Centre for Settlement of Disputes	ICSID
International Monetary Fund	IMF
Letters of Credit	LC
London Interbank Offered Rates	LIBOR
Ministry of Law and Justice	MOL

National Accountability Bureau	NAB
No Objection Certificate	NOC
Organization for Economic Co-operation and Development	OECD
Pakistani Rupee	PKR
Proceeds Realization Certificate	PRC
Protection of Economic Reforms Act, 1992	PERA
Purchasing Power Priority	PPP
Return on Investment	ROI
Securities and Exchange Commission of Pakistan	SECP
Sovereign Wealth Fund(s)	SWF(s)
State Bank of Pakistan	SBP
United Nations Development Programme	UNDP
Venture Capital(ist)	VC

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MESSAGE FROM TEAM LEAD

This Report and the underlying work on Pakistan’s foreign exchange regime has been an enlighteningly and necessary exercise to fathom the different factors that influence the decisions taken in this area, both by the public and private sector.

Foreign exchange is a deep rabbit hole, that we followed, yet I feel we did not reach its true depths as a study of this issue is a study of the entire economy. We are truly grateful for the support given by our private and public experts in assisting us to identify and dissect the wheat from the chaff. We went in thinking that the legal issues are abundant and that would be the extent of it. That was a naïve assumption as our experts, some of whom actively suffered due to the existing circumstances, were insistent on sharing that even if the law is perfected, the practical implementation of the same must be improved.

Our understanding of the problems grew as more diverse experts gave their feedback. From the startup sector, to the manufacturing, services and trade sectors, we were blessed to hear from as many perspectives as possible, augmented by our legal, accounting and finance experts who helped put all this in context.

Our solutions were naturally devised from the feedback from our public experts who have to manage and work on implementing the solutions. As we do more of these Roundtables our knowledge and ability to share with our experts and you, our readers grows as well.

I am honoured to put this Report and Policy Brief before you all in the hopes of helping Pakistan out of its current predicament and on to greater heights and stability. This effort would not be possible without my wonderful team comprising of our Head Writer, Mehak Zaraq Bari, and our assistant writers, Haniya Yasin, Ahsan Ali, & Maria Ahmed, including the assistance by Hussam Raza.

As before, the Report will also be available on our website at https://www.sazh.consulting/fre-report.

We hope you can appreciate and enjoy the work done, and continue to support us in unraveling the issues plaguing Pakistan. Our solutions are always based on their practicality thus there are a lot left on the table, which we feel cannot work in the existing climate. We will revisit many of them in the years to come once their implementation can appear feasible. Thank you all and we look forward to hearing your feedback.

Syed Akbar Hussain

Team Lead

SAZH Consulting LLP

EXECUTIVE SUMMARY

This report, conducted through collaborative efforts between SAZH Consulting LLP and The Asia Foundation, provides comprehensive analysis of the challenges faced by investors within the Foreign Exchange Regime which have hindered Foreign Direct Investment and eroded investor trust and confidence. The primary objective of this report is to shed light on critical policy and legal issues surrounding the foreign exchange regime and to propose viable solutions aimed at bolstering investor trust.

The insights gleaned from interviews and Round Tables with various stakeholders have been instrumental in shaping the content of this report. These stakeholders include renowned law firms providing counsel to foreign investors, accounting firms, venture capitalists, businesses spanning diverse industries, chambers of commerce, entrepreneurs engaged or aspiring to engage with foreign investors, and various government entities regularly interacting with foreign investors.

The findings and recommendations outlined in this report are intended to be disseminated among relevant stakeholders, including policymakers such as the State Bank of Pakistan, Ministry of Finance, Ministry of Commerce, Board of Investment (BOI), the Ministry of Law and Justice (MOL), and other pertinent ministries and departments. By addressing the issues within the foreign exchange regime and proposing solutions, this report endeavors to foster an environment conducive to increased investor trust and, consequently, greater Foreign Direct Investment.

Through this process we identified the following issues and developed and proposed targeted solutions through our stakeholder discussions and Round Tables.

Issue	Solution	Implementing Body
Depletion Of Foreign Reserves and Bureaucratic Red Tape around repatriations **Foreign exchange control and hindrances on remittance of funds**	*The proposed solution involves the introduction of forex credits as a financial instrument, supported by policies and regulations. This instrument aims to incentivize FDI in Pakistan by providing legal protection and the promise of repatriation, ultimately fostering a more investor-friendly environment. Furthermore, the concept envisions a dynamic*	Creation of instrument like forex credits Collective effort of: SBP; Exchange Policy Department Ministry of Commerce Ministry of Industry and Production Industry Associations Federal Board of Revenue

	marketplace for trading forex credits, enhancing liquidity and flexibility for organizations and investors alike.	Board of Investment (Federal and Provincial) And other stakeholders facilitated by the Liaison & Coordination Network & Guarantee & Vetting Module of the SAZH-TAF Model Trust System.
Trust Deficit	*Imperative to outsource trust-building measures to external states until Pakistan can regain that trust. This involves relying on other countries to act as guarantors for investments made in Pakistan, potentially through Bilateral Investment Treaties (BITs) or similar mechanisms. Under this system, host countries can assure investors that their funds are secure for-profit repatriation, possibly utilizing Forex Credits as a part of this mechanism. This trust relationship would primarily be between the investor and their home country, with Pakistan providing indemnification. This approach acknowledges Pakistan's pressing need for investment but places the burden on external states to ensure investor protection, as Pakistan currently struggles to attract investment without offering sufficient commitments for capital repatriation. This strategy is expected to be in place for at least 3-7 years to rebuild trust in Pakistan's investment climate*	Collective effort of: BOI; Ministry of Foreign Affairs Ministry of Finance SBP And other stakeholders And other stakeholders facilitated by the Liaison & Coordination Network & Guarantee & Vetting Module of the SAZH-TAF Model Trust System.
Legal Issues: Fem and Foreign regime exchange • **Complex Regulatory Framework** • **Outdated Guidelines** • **Bureaucratic Approval Processes** • **Foreign Exchange Restrictions** • **Reporting and Compliance Obligations**	*Establish consistent policies and amend the Foreign Exchange Manual to reflect the current commercial realities. Create awareness and training on the Manual so that advisors can assist investors in creating remittance plans* *The Foreign Exchange Manual (FEM) should undergo comprehensive updates to consolidate amendments and*	Collaborative endeavour between: Ministry of Finance, State Bank of Pakistan And other stakeholders facilitated by the Liaison & Coordination Network of the SAZH-TAF Model Trust System, including holding further consultations. Training to be conducted by the Model Training and Capacity Building Center of the SAZH-TAF Model Trust System.

• **Exchange Rate Risks** • **Monitoring and Enforcement** • **Inadequate Investor Protection** • **Lack of Flexibility**	*enhance its accessibility and transparency for investors and businesses. Special attention should be given to improving foreign remittance and repatriation procedures. Furthermore, the regulatory framework should adapt to various investment models like venture capitalism and private equity, offering clear exit processes for investors.*	
Policy Inconsistency and Political Instability	*The State Bank of Pakistan should streamline the repatriation process for foreign investors, emphasizing transparency and clear guidelines. Simplifying bureaucratic procedures will enhance the attractiveness of repatriation, thereby encouraging more foreign investments. To facilitate this, capacity building initiatives should be implemented for both financial and legal processes, along with advisory services to guide investors on proper channels for investment and repatriation. Additionally, offering guidance on capital management should be integrated into training and advisory services for companies seeking foreign investments.* *To enhance investor confidence in repatriation, existing Bilateral Investment Treaties (BITs) should be supplemented with additional support mechanisms. This can involve host countries providing guarantees for investments made in Pakistan through agreements with Pakistan's investment agencies. By becoming guarantors, host countries can reassure their investors.*	SBP facilitated by the Liaison & Coordination Network of the SAZH-TAF Model Trust System.
Lack of Transparency with FER stakeholders i.e SBP and commercial banks	*The Foreign Exchange Manual (FEM) imposes a cap on royalty payments that many businesses*	SBP and commercial banks SBP facilitated by the Liaison &

	find arbitrary and are unaware of. To address this issue, there's a need for awareness campaigns and capacity-building initiatives to educate the public about these provisions within the Foreign Exchange Regime. *Following this, consultations should be conducted with franchises heavily impacted by this regulation, as they are compelled to seek alternative methods for contractual payments to avoid breaching their obligations. Breaches could result in substantial damages and costs for the companies and discourage the creation or import of international brands into Pakistan seeking to enter into royalty agreements*	Coordination Network of the SAZH-TAF Model Trust System.
Lack of Investor focused incentives regards to capital repatriation	*To attract investors and facilitate capital repatriation, the Punjab Board on Investment and Trade is urged to create incentives, including fast-track access for repatriation processes. The establishment of Special Economic Zones dedicated to startups is considered vital, offering benefits like streamlined repatriation procedures and conflict resolution.* *Additionally, promoting barter trade and permitting the use of various currencies is recommended to facilitate cross-border transactions and enhance the investment climate.* *The government should adopt a more liberal approach, particularly by revising the policy limiting IT exporters to retain only 35% of their earnings in foreign exchange accounts. This change would stimulate exports, increase foreign earnings, and encourage startups to hold*	Collaborative efforts of Boards of Investment (Federal and Provincial), along with Ministry of Commerce facilitated by the Liaison & Coordination Network of the SAZH-TAF Model Trust System.

	investments in USD within Pakistan, alleviating concerns about exchange rate depreciation. *To promote business and investment, currency restrictions should be liberalized, allowing businesses and investors to freely open foreign currency accounts abroad and conduct transactions in multiple currencies. This flexibility would enable more efficient financial operations and address the limitations of the current system.*	
Obsolete FER policies unprepared for investors such as venture capital funds:	*The Foreign Exchange Manual (FEM) contains a cap on capital gains remittances that requires attention. Members leading VC firms have recommended its long-term removal, citing its obsolescence in the current venture capitalism landscape. In the short term, stakeholders like SBP and SECP should establish a regulatory framework for VC firms, akin to mutual funds regulation. These regulated VC firms should then be permitted to remit capital enhancements to external parties outside Pakistan.*	SBP facilitated by the Liaison & Coordination Network of the SAZH-TAF Model Trust System.
Lack of Transparency	*To improve information access for investors, collaboration with bankers, lawyers, and institutions like the Board of Investment is advised. They can offer guidance on remittance and investment regulations and procedures.* *Additionally, the creation of an online portal is proposed to provide ongoing updates, feedback, and a directory of registered lawyers and experts who can offer support and clarity on remittance procedures, thus enhancing transparency and investor assistance.*	SBP and commercial banks facilitated by the Liaison & Coordination Network of the SAZH-TAF Model Trust System. Training to be conducted by the Model Training and Capacity Building Center of the SAZH-TAF Model Trust System.
Startup Concerns	*During discussions with various startup entities, it became evident that they felt underserved and*	Ministry of Commerce, and Ministry of Industries & Production

	unheard, despite their efforts to promote Pakistan and attract significant foreign investment. Startups, some of which had secured investments exceeding USD 1 million, faced challenges in repatriating payments from Pakistan, causing friction with their investors. To address these issues, it was recommended during a roundtable that a startup association be established to represent their interests and needs officially.	Public sector entities like the Punjab Board of Investment and Trade supported this idea and suggested that the legal experts would assist in creating this association, enabling startups to communicate their concerns effectively to the public sector for resolution facilitated by the Liaison & Coordination Network of the SAZH-TAF Model Trust System.

In addition to the issues and solutions summarized above, the report also details various other barriers and structural issues that warrant further discussion.

OBJECTIVES

This project builds upon the SAZH-TAF Report and Roundtable on FDI issues and solutions where experts identified various issues faced by investors when transferring funds abroad as returns on their investments in Pakistan. The study aims to assess the primary hindrances, whether legal constraints or practical issues, that obstruct Foreign Direct Investment in Pakistan within the context of the Foreign Exchange Regime.

The objectives of this project were to gather data from the relevant individuals in the private and public sector, both within Pakistan and internationally through individual and informal interviews/discussions and by mediating Round Table discussions to analyze the key obstacles, legal or practical, regarding Foreign Direct Investment and Foreign Exchange Regime in Pakistan. The data is then fed into this Report, which maneuvers to effectively sift and organize the information gathered through our interviews and Round Tables. The specific objectives are listed below:

- *Conduct research and gather relevant information on the Foreign Exchange Regime in Pakistan, including policies, regulations, and procedures.*
- *Identify the key information and knowledge that investors need to know to make informed investment decisions within the Foreign Exchange Regime.*
- *Identify and analyze the barriers that impede FDI from entering Pakistan under the current Foreign Exchange Regime.*
- *Prepare a comprehensive report highlighting the obstacles within the Foreign Exchange Regime in Pakistan.*
- *Outline short-term and long-term remedies based on the discussions and refine them using SMART (Specific, Measurable, Achievable, Relevant, Time-bound) criteria.*

The report aims to provide insight into the performance of the regime, identify any regulatory gaps, and propose policy recommendations for enhancing its efficiency and alignment with international best practices. This report will enable policymakers, regulatory authorities, and market participants to gain valuable insights into the strengths and weaknesses of the current foreign exchange regime. The findings of the report can serve as a foundation for future reforms and initiatives aimed at improving the efficiency and effectiveness of the regime, thereby supporting sustainable economic growth and stability in Pakistan.

BACKGROUND & HISTORICAL CONTEXT

The foreign exchange regime in Pakistan plays a crucial role in facilitating international trade, managing capital flows, and maintaining macroeconomic stability.[1] As an emerging market economy, Pakistan relies on foreign exchange transactions to support its imports, exports, and attract foreign investment.[2] While Pakistan has a nominally open foreign direct investment (FDI) regime, it remains a challenging environment for investors as dispute resolution processes are lengthy, enforcement of intellectual property rights (IPR) is weak, taxation is inconsistent, and regulations vary across Pakistan's provinces.[3] Incoming FDI declined by 8.9 percent in FY 2021 compared to FY 2020, and levels of investment have historically lagged behind Pakistan's regional contemporaries such as China and India.[4]

Since 1997, Pakistan has maintained an open approach to investments, fostering an investment-friendly environment. In 2013, Pakistan took a step further by implementing an Investment Policy that aimed to liberalize investment regulations across most sectors, with the intention of attracting foreign investment. Additionally, the China-Pakistan Economic Corridor (CPEC) agreement, established in April 2015, marked a significant milestone in Pakistan's economic cooperation with China.[5]

To bolster its investment strategy, Pakistan has introduced targeted policies for specific sectors. For instance, the Automotive Policy of 2016[6], the Export Enhancement Package of 2019[7], the Alternative and Renewable Energy Policy of 2019,[8] the Merchant Marine Shipping Policy of 2019[9] (with updates in 2020), the Electric Vehicle Policy spanning from 2020 to 2025[10], and the Textile Policy of 2021 (which underwent a lengthy approval process of over two years) exemplify this sector-specific approach. These policies offer various incentives to attract investors, such as tax benefits, tariff reductions, infrastructure development, and specialized investor support services. Furthermore, Prime

[1] Muhammad Hafeez, Haseeb Ahmad, Economic Growth, Exchange Rate , Structural Shocks : Evidence from Pakistan, , LAP LAMBERT Academic Publishing,2015
[2] Zobia Israr Ahmed, The efficiency of Foreign Exchange Rate Market: A Case Study of Pakistan, LAP LAMBERT Academic Publishing,2015
[3] US State Department, 2022 Investment Climate Statements: Pakistan, 2022. https://www.state.gov/reports/2022-investment-climate-statements/pakistan/ last accessed:
[4] Hafsa Hina, Why Do We Have Less Investment Than China and India?, 2021, PIDE, see also : Abbas, A. (2011), Essays on investment behaviour in Pakistan, PhD Thesis, PIDE., and Khan, A., & Khilji, N. (1997). Foreign direct investment in Pakistan: Policies and trends [with Comments]. The Pakistan Development Review, 36(4), 959–985.
[5] *Supra* 3
[6] AUTOMOTIVE DEVELOPMENT POLICY (2016-2021), Board of Investment, https://invest.gov.pk/auto-development policy#:~:text=MAIN%20OBJECTIVES%20OF%20ADP%2D2016%2D21&text=the%20installation%20of%20new%20and,Pakistan%20and%20Brownfield%20Investment%20i%2De.
[7] Pakistan Economic Brief 2022 (kpmg.com) https://assets.kpmg.com/content/dam/kpmg/pk/pdf/2022/06/Pakistan-Economic-Brief-2022.pdf
[8] The Policy for Alternative and Renewable Energy, 2019 (the "ARE Policy 2019"), https://eesr.uet.edu.pk/wp-content/uploads/2020/03/renewable_energy_policy_of_pakistan-draft_are_policy_2019_-_version_2_july_21_2019.pdf
[9] Pakistan Merchant Marine Shipping Policy 2019 , Government of Pakistan, 2019. https://moma.gov.pk/SiteImage/Misc/files/PakistanMerchantMarinePolicy2019.pdf
[10] Government of Pakistan ELECTRIC VEHICLE POLICY 2020-2025 https://invest.gov.pk/sites/default/files/2020-07/EV%2023HCV%20130620%20PDF.pdf.pdf

Minister Imran Khan introduced a reform package for the IT sector's advancement in February 2022.[11] These targeted incentives in different sectors collectively contribute to Pakistan's efforts to encourage both local and foreign investment.

Nonetheless, foreign investors continue to advocate for Pakistan to improve legal protections for foreign investments, protect intellectual property rights, and establish clear and consistent policies for upholding contractual obligations and settlement of tax disputes. Pakistan has had a turbulent economic history. The nation faces various challenges, including internal and external threats. Issues with financial markets, exchange rates and trade imbalances have been significant concerns. Political instability, financial problems and a lack of social development have hindered the establishment of political power. Additionally, local conflicts, territorial disputes, border tensions with India and economic disparities contribute to instability in Pakistan.[12] Studies have investigated the effects of political instability and FDI on Pakistan's economic development. They discovered a negative correlation between political instability and economic progress, suggesting that unstable political conditions impede economic growth. Conversely, there was a positive association between FDI and economic development, indicating that FDI has a beneficial impact on Pakistan's economy.[13]

In the present day, Pakistan faces numerous investment challenges due to political instability, global economic downturn, high interest rates, energy shortages and poor law and order conditions. These factors make investors hesitant to invest in the country.[14] And as identified in the last report, one of the biggest challenges is dealing with the Foreign Exchange Regime of Pakistan that deters investors from investing and hinders investor retention.

The last report identified that the State Bank of Pakistan regulates currency flow through the Foreign Exchange Manual (FEM) since 1947.[15] It further identified that the FEM's cap on royalties creates challenges for legal transfers, prompting some to consider establishing subsidiaries for a workaround. Financial experts note that Pakistan's risks include credit default swaps, impacting debt prices due to investor perception.[16] Despite most borrowing from domestic banks, engaging international debt markets provides capital access but lacks a clear strategy. The government's switch from USD to PKR payments for power companies raises concerns for investors due to PKR devaluation. Experts suggested managing foreign exchange by promoting local production and exports.[17] The Round Table proposed

[11] The promising future of Pakistan’s IT sector, Paksiatn Gulf Economist, 2022. https://www.pakistangulfeconomist.com/2022/11/14/the-promising-future-of-pakistans-it-sector/
[12] Hashmi, M.H., W. Akram and A.A. Hashmi, 2012. Role of investment in the course of economic growth in Pakistan. International Journal of Academic Research in Economics and Management Sciences, 1(5): 48.
[13] Rani, K. & Batool, Z. (2016). Impact of Political Instability and Foreign Direct Investment on Economic Development in Pakistan. Asian Economic and Financial Review, 6(2), 83-89. <https://doi.org/10.18488/journal.aefr/2016.6.2/102.2.83.89>
[14] Attari, M.I.J., Y. Kamal and S.N. Attari, 2011. The causal link between foreign direct investment (FDI) and economic growth in Pakistan economy. Journal of Commerce, 3(4): 61-68
[15] Foreign Direct Investment And Doing Business In Pakistan : Issues And Solutions SAZH Consulting LLP and The Asia Foundation, 2022. https://www.sazh.consulting/report-abridged
[16] *ibid*
[17] *ibid*

amending the FEM to address these issues, seeking input from economic and finance experts for a practical solution.

The aim of this project is to conduct a thorough evaluation of the foreign exchange regime to understand the regulatory framework and its impact on investors. Furthermore, it aims to identify the specific barriers within the Foreign Exchange Regime that impede Foreign Direct Investment. Issues such as remittance of profits dividends and other returns of investment will be examined to pinpoint the challenges faced by investors and understand the reasons behind these barriers. The goal is to generate solutions by building on the expertise of the participating professionals and generate practical and feasible solutions to overcome the identified barriers.

METHODOLOGY

This report aims to identify, analyse, and evaluate, the foreign exchange regime in Pakistan, and its overall effectiveness. It seeks to find solutions and potential remedies to concerned obstacles.

The research used qualitative methodology and has relied predominantly on primary sources bolstered with secondary sources. Questionnaires were sent to leading experts to gain initial data on the issues foreign and domestic investors face. They were sent to various experts from a diverse network of professions who were dealing with Pakistan's foreign exchange regime in different capacities. These included leading lawyers (local and international), leading accountants, a diverse group of businessmen, international investors, venture capitalists, experts from the stock exchange, experts in the banking industry, particularly micro-finance and NBF, experts in the power, telecom, audit, tourism, food, pharmaceutical, crypto sectors, experts from the World Bank, experts from think tanks, and senior officers from various government departments, including the National Accountability Bureau (NAB), Board of Investment, Ministry of Energy (Power Division) Ministry of Law, Ministry of Commerce, Capital Development Authority etc.

After the questionnaires were filled in and sent back to us interviews were scheduled. Some discussions took place in one-on-one interview settings while others were in small focus groups to facilitate directed discussions on specific aspects, such as the effectiveness of exchange rate mechanisms, regulatory challenges, or capital flow management. A moderator was assigned for each breakout session to facilitate discussions, capture key points, and encourage active participation from all attendees. After the interviews to gather further in-depth insights and perspectives on the possible solutions, a roundtable discussion was organized. The roundtable brought together relevant stakeholders, including representatives from financial institutions, government agencies, academic experts, and lawyers, investors, businessmen, and market participants. These experts and stakeholders represented different perspectives and expertise related to foreign exchange. Each participant was given time to present their views, insights, and research findings in writing beforehand as well through the questionnaires.

The objective of the roundtable discussions was to evaluate the foreign exchange regime in Pakistan and discuss solutions to key issues. The purpose of the roundtable is to encourage interactive discussions among panelists and facilitate question-and-answer sessions to foster a comprehensive understanding of the issues.

Rapporteurs were appointed to document the discussions, insights, and recommendations emerging from the roundtable, interviews, and breakout sessions. These helped to prepare a comprehensive report summarizing the key findings, recommendations, and any areas of consensus or disagreement among participants.

Our Experts and Members who have contributed to this Report have done so in their personal capacity. Nothing that they have shared with us or has been reproduced here in this Report is indicative of any stance or opinion held by their respective organizations. The term “Expert(s)” and “Member(s)” will be used interchangeably, in this Report, to reflect the individuals who joined this project to share their valuable insight on our subject matter.

The secondary sources used in this report include research articles, studies, newspaper reports, op-eds, academic papers, books, and reports by various independent organizations.

LITERATURE REVIEW

Introduction to the Foreign Exchange Regime

The foreign exchange market in Pakistan, also known as the forex market or currency market, is where the buying and selling of different currencies take place.[18] Each currency, whether it's the US dollar or the Pakistani Rupee, has a value in terms of other currencies. This is the "exchange rate."[19] It is a decentralized market where participants, such as banks, financial institutions, corporations, and individual traders, exchange one currency for another.[20] The foreign exchange regime in Pakistan is a framework that governs the buying and selling of currencies, both domestically and internationally. It includes the mechanisms for determining exchange rates, regulations on foreign currency transactions, and the infrastructure supporting currency trading.

It operates under a managed floating exchange rate system where market forces influence the Pakistani Rupee's value, with occasional interventions by the State Bank of Pakistan (SBP) to stabilize extreme fluctuations. The interbank market serves as the platform for currency transactions among authorized dealers, mainly banks and financial institutions. These dealers facilitate transactions, including remittances and trade financing, while adhering to regulations and reporting requirements. SBP manages foreign exchange reserves to ensure stability and fulfill external obligations. Remittances, capital flows, and the informal kerb market contribute to the system significantly. Exchange control regulations ensure compliance with monetary stability and economic interests, guided by SBP's guidelines and notifications. The SBP issues the Foreign Exchange Manual, which provides comprehensive guidelines and instructions for market participants. It outlines the procedures, documentation requirements, and regulatory framework governing various types of foreign exchange transactions.

Pakistan has implemented exchange control regulations to manage capital flows and maintain stability in the foreign exchange market. These regulations cover areas such as import and export of goods, remittances, foreign investment, and foreign borrowing. Market participants must comply with these regulations when engaging in foreign currency transactions.

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18 The IMF in Action: Why do we need the IMF? Smoothing the bumps in the flow of foreign exchange, The Lahore Journal of Economics. Volume: 19, Issue: Special (September 2014). ➢ Pakistan's Parallel Foreign Exchange Market. Asma Khalid. 1-16.
19 *ibid*
20 ibid

Current Foreign Exchange Regime in Pakistan: Policy Framework

Foreign Exchange Regime Policies

The Foreign Exchange Regime encompasses the policies, regulations, and mechanisms that govern transactions and determine the value of the Pakistani Rupee (PKR) in relation to other currencies. Understanding the background and significance of the foreign exchange regime is essential for assessing its effectiveness and identifying areas for improvement. The choice of a foreign exchange regime has profound implications for a country's economic stability and growth. Obstfeld and Rogoff (1995) have highlighted the importance of exchange rate regimes in influencing trade patterns, investment decisions, and overall macroeconomic outcomes.[21] Various regimes, from fixed to floating, have been explored by Mundell (1961)[22] and Frankel (1995)[23], underscoring their significance in determining a nation's resilience against external shocks and its ability to maintain competitiveness.

Khan and Schimmelpfennig (2006) have examined Pakistan's historical transition from fixed to managed floating exchange rates.[24] The impact of significant events, like IMF interventions and structural reforms, on the evolution of Pakistan's exchange rate policies has been studied by Mir and Hamid (2015).[25] These studies provide valuable insights into the contextual factors that have shaped Pakistan's approach to managing its currency.

Pakistan's foreign exchange regime has evolved over time, reflecting economic development, policy shifts, and external factors. Initially tied to the Indian Rupee, Pakistan adopted a fixed exchange rate with the British Pound and later the U.S. Dollar. Challenges prompted a shift to a managed floating exchange rate, where market forces determined rates with occasional State Bank interventions.[26]

In the 1990s, managed float and controlled floating methods were employed, with periodic devaluations to balance external stability and competitiveness. A transition to a more market-based floating regime followed the 1998 nuclear tests and economic challenges, with the State Bank's role reduced.[27]

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21 Obstfeld, Maurice, and Kenneth Rogoff. 1995. “Exchange Rate Dynamics Redux.” The Journal of Political Economy 103: 624–60.
22 Mundell, Robert A. (1961), “A Theory of Optimum Currency Areas,” American Economic Review, 51: 657–664.
23 Frankel, J. A. (1995), “Monetary Regime Choice for a Semi-Open Economy,” in S. Edwards (ed.), Capital Controls, Exchange Rates, and Monetary Policy in the World Economy. Cambridge, UK: Cambridge University Press.
24 Mohsin Khan and Axel Schimmelpfennig , Inflation in Pakistan, The Pakistan Development Review, 2006, vol. 45, issue 2, 185-202
25 Naved Hamid and Azka Sarosh Mir, Exchange Rate Management and Economic Growth: A Brewing Crisis in Pakistan, The Lahore Journal of Economics 22 : SE (September 2017): pp. 73–110
26 Bashir, Rizwana & Shakir, Rabia & Ashfaq, Badar & Hassan, Atif. (2014). The Efficiency of Foreign Exchange Markets in Pakistan: An Empirical Analysis. THE LAHORE JOURNAL OF ECONOMICS. 19. 133-149. 10.35536/lje.2014.v19.i1.a6.
27 *ibid*

Various crises, like the 2008 financial downturn and 2013 balance of payments crisis, led to exchange rate depreciation and interventions, but long-term effectiveness was limited.[28] Researchers have examined the consequences of currency devaluations on inflation and competitiveness. Studies have explored the relationship between exchange rate depreciation and inflation. They emphasized the importance of effective monetary policy coordination to mitigate potential inflationary pressures following devaluations.[29] The impact of devaluation on export competitiveness was investigated by Ahmed et al (2017)[30] highlighting that while a weaker currency enhances export competitiveness, structural reforms are crucial for long-term benefit. External factors, including global conditions and IMF involvement, played a significant role. Recent reforms aimed at market-driven exchange rates, enhancing flexibility, and managing external sector challenges. Trade deficits, declining reserves, and debt servicing shaped exchange rate policies, emphasizing on stability, foreign investment, and export competitiveness.[31]

As a prerequisite for its July 2019 IMF program[32], Pakistan committed to adopting a flexible market-driven exchange rate system. The State Bank of Pakistan (SBP) is responsible for regulating the exchange rate and overseeing foreign exchange transactions in the open market. Interventions by the SBP are limited to maintaining financial stability and preventing disruptions in the market.[33] The exchange rate determination process in Pakistan combines market forces and State Bank of Pakistan (SBP) interventions. Factors like trade, investments, inflation, and expectations influence the rate. Changes in these factors lead to Pakistani Rupee value fluctuations, impacting economic sectors and creating uncertainties. Various macroeconomic indicators, interest rates, growth rates, and global developments contribute to exchange rate volatility.

SBP intervenes via currency trading, rate adjustments, and policy measures to manage stability, considering factors like inflation, growth, and debt. The balance of payments, reflecting trade, remittances, investments, and debt, crucially influences the exchange rate. Government entities influence the SBP's decisions through their representation on its board, with the Finance Secretary and Board of Investment Chair currently holding positions on the board.[34]

However, the SBP's interventions with arbitrary policies and unclear regulations and requirements impede FDI. Banks are obligated to report and provide reasons for foreign currency outflows.

28 *ibid*
[29] Sarpong Mohammed, Abubakari Mohammed & Edward Nketiah-Amponsah | (2021) Relationship between Exchange Rate Volatility and Interest Rates Evidence from Ghana, Cogent Economics & Finance, 9:1, 1893258, DOI: 10.1080/23322039.2021.1893258
30 Ahmed, K., Qasim, M. and Chani, M.I., 2017. The impact of the exchange rate on exports in the case of Pakistan. Bulletin of Business and Economic, 6, pp.98–102.
31 *ibid*
[32] IMF Executive Board Approves US$6 billion 39-Month EFF Arrangement for Pakistan , PRESS RELEASE NO. 19/264 https://www.imf.org/en/News/Articles/2019/07/03/pr19264-pakistan-imf-executive-board-approves-39-month-eff-arrangement
33 Us Department of State, 2020 Investment Climate Statements: Pakistan Report, 2020 https://www.state.gov/reports/2020-investment-climate-statements/pakistan/
34 *ibid*

Individuals entering or leaving Pakistan have limitations on the cash they can carry.[35] The State Bank of Pakistan (SBP) requires banks to report loan information to enable the SBP to verify remittances against repayment schedules.[36] While cross-border payments related to interest, profits, dividends, and royalties do not require prior notification, banks must report loan information to enable the SBP to verify remittances against repayment schedules. The SBP has also established an Electronic Credit Information Bureau (eCIB) to collect and collate credit data on borrowers from its member financial institutions.[37] The MFBs are required to provide factual and accurate data to SBP on the format prescribed from time to time. The said data /information shall be submitted to SBP monthly but not later than 10th of every month following the month to which the eCIB data relates.[38]. Although no formal policy prevents profit repatriation, companies have faced challenges in repatriating profits due to unclear regulations and coordination issues between the SBP, Ministry of Finance, and other government bodies. In response, the U.S. Mission in Pakistan has advocated for U.S. companies experiencing difficulties in profit repatriation.

Exchange companies are authorized to buy and sell foreign currency for individuals, banks, and other exchange companies. They can also sell foreign currency to registered companies to facilitate the transfer of royalty, franchise, and technical fees. Regarding the convertibility of funds invested in other global currencies, there is no clearly defined policy. The SBP makes decisions on a case-by-case basis using an ad-hoc approach.

In terms of remittance policies, the 2001 Income Tax Ordinance of Pakistan exempted taxes on foreign currency amounts remitted from abroad through standard banking channels. Remittance of complete capital, profits, and dividends exceeding USD 5 million is allowed, and dividends are exempt from taxation. No restrictions exist for dividends, profit remittances, debt servicing, capital, capital gains, returns on intellectual property, or payment for imported equipment under Pakistani law. However, significant transactions that could impact Pakistan's foreign exchange reserves require approval from the Economic Coordination Committee of the government. Similarly, banks are required to account for foreign currency outflows. Investor remittances must be registered with the SBP within 30 days of execution and must align with a valid contract or agreement.[39]

[35] External Relations Department, SBP rationalizes Limits for Foreign Exchange Cash Carrying for travel and Cross Border Transactions through Debit or Credit Cards,
Accessed : https://www.sbp.org.pk/press/2022/Pr2-08-Nov-2022.pdf
[36] AC&MFD Circular Letter No. 02 of 2021 - sbp.org.pk. https://www.sbp.org.pk/acd/2021/CL2.htm.
[37] State Bank of Pakistan. https://www.sbp.org.pk/ecib/index.htm.
[38] MySBA Loan Portal. https://lending.sba.gov/.
39 *ibid*

FDI Policies and Factors Impeding FDI

The literature on foreign exchange regime policies in Pakistan reflects the country's efforts to attract foreign investment and create a favorable business environment. These policies aim to simplify procedures, provide legal protections, and offer fiscal incentives to foreign investors. Foreign currency accounts play a significant role in easing foreign investors' ability to manage funds related to their investments. Studies suggest that allowing foreign investors to hold funds in foreign currency reduces exchange rate risks and enhances their confidence in the investment climate.

A study by the World Bank (2020) highlights that inconsistent policies and cumbersome regulations can discourage foreign investors and impede the ease of doing business.[40] Legal protections provided by the Foreign Private Investment (Promotion and Protection) Act, 1976[41], and other legislation are acknowledged for enhancing investor confidence and ensuring fair treatment of foreign investments. The role of the Board of Investment (BOI) in facilitating foreign investment is highlighted in the literature, with its one-window operation simplifying administrative processes and providing essential information to investors.[42]

Efforts to promote foreign investment through various channels, including international investment forums and sector-specific information dissemination, are recognized as strategies to showcase investment opportunities and attract foreign investors.[43] Exchange rate stability is emphasized as a critical factor in enhancing investor confidence and reducing currency-related risks.[44]

Since its inception in 1947, Pakistan has witnessed a dynamic history of Foreign Direct Investment (FDI). Notably, Siemens from Germany and ICI from Britain were among the pioneers of FDI in the telecom and chemical/pharmaceutical sectors. Unilever, Imperial Tobacco, Shell, and Burma Oil also established their presence in subsequent years. Despite economic growth in the 1950s and 60s, Pakistan's policies leaned towards trade and investment restrictions to maintain domestic control over businesses. This approach aimed to address the gap between savings and investments, leading to reliance on foreign capital. During the 1960s, certain industries were opened to private investment, but FDI did not initially participate in finance and banking. The 1970s witnessed a shift towards socialism

40 "World Bank. 2020. Doing Business 2020: Comparing Business Regulation in 190 Economies. © Washington, DC: World Bank. http://hdl.handle.net/10986/32436 License: CC BY 3.0 IGO."
URI http://hdl.handle.net/10986/32436

41 Foreign Private Investment (Promotion & Protection) Act 1976. https://www.invest.gov.pk/sites/default/files/inline-files/InvestementActs.pdf.

42 Investment Policy 2013 25.3 - Boi | Board Of Investment. https://invest.gov.pk/sites/default/files/inline-files/InvestmentGuide.pdf.

43 Checklist for Foreign Direct Investment Incentive Policies Report, OECD, 2003 https://www.oecd.org/investment/investment-policy/2506900.pdf

44 ibid

and nationalization, affecting FDI. Subsequent adjustments, including the 1976 Foreign Investment Act, facilitated foreign investment and capital transfer. (Sahoo, 2006; Mughal, 2012; Khan 1997)[45].

The 1980s introduced public-private partnerships and a more liberal investment policy. Export Processing Zones were established, offering tax incentives and duty exemptions. The 1990s brought further reforms, allowing foreign investors full equity ownership without prior approval and relaxing capital movement restrictions (Anwar, 2002; Khan, 2008)[46].

From the 2000s, Pakistan shifted focus to privatization and economic deregulation to attract FDI, opening all sectors, including services, to foreign investment. Guarantees of ownership rights and elimination of local authority no-objection requirements for projects were introduced (Zakaria, 2008)

Despite these initiatives, challenges such as corruption, political instability, weak diplomatic ties, and legal system inefficiencies have constrained the full potential of FDI inflow in Pakistan (Zakaria, 2008)[47] Scholars from Pakistan have extensively explored the consequences of exchange rate policies on various economic aspects. Khan et al. (2008) delved into the impact of exchange rate fluctuations on foreign direct investment (FDI) in the country and emphasized on political instability as one of the major reasons of fluctuations.[48] The study underscored the role of exchange rate stability in attracting sustainable FDI. Similarly, Qayyum[49] and Siddiqui (2009)[50] analyzed the implications of exchange rate volatility on trade balances, emphasizing the need for stability to foster exports.

Various factors can impact foreign exchange regimes and potentially hinder foreign direct investment (FDI). These factors include exchange rate volatility, restrictive exchange rate controls, the existence of multiple exchange rates, strict capital controls, a lack of transparency, inconvertibility risk, political and economic instability, unclear legal and regulatory frameworks, external global factors, limited access to hedging instruments, local currency requirements, and foreign debt with currency mismatch. These issues create uncertainty and risk for investors, making them cautious about investing in countries with unstable or non-transparent foreign exchange regimes. Investors generally favor countries with stable, transparent, and investor-friendly exchange rate policies.

45 Mughal, M.Y. (2012) Remittances as development strategy: Stepping stones or slippery slope?Journal of International Development, 24:8. Khan . A. H.(1997). Foregin direct investment in pakistan: policies and Trends. The Pakistan development review, 36(4) :959-985. Sahoo, P. (2006). Foregin direct investment and growth in south asia:policy , trend, impact and determinats, (56). Asis Development Bank Insittute Discussion Papers. https://www.econstor.eu/dspace/bitstream/10419/53445/1/521368502.pdf (Accessed on 26 Feb 2016 at 10:00).
46 Khan, M.A. (2008). Financial Development and Economic growth in Pakistan: Evidence Based on Autoregressive Distributed lag Approach . South Asia Economic Journal, 9(1) :375-391
47 Zakaria, M.(2008). Investment in pakistan: A critical review, MPRA paper 11543
48 Khan, R. E. A., Sattar, R., & Rehman, H. (2012). Effectiveness of exchange rate in Pakistan: Causality analysis. Pak. J. Commer. Soc. Sci, 6(1), 83-96
49 Qayyum, A., & Kemal, A. R. (2006). Volatility spillover between the stock market and the foreign exchange market in Pakistan (Working Paper No. 2006-7). Islamabad: Pakistan Institute of Development Economics
50 Siddiqui, M. A. (2009). Modeling Pak rupee volatility against five major currencies in the perspective of different exchange rate regimes. European Journal of Economics, Finance and Administrative Sciences, 17, 81–96.

Stability is a critical factor for attracting foreign direct investment. Investors seek predictability in currency values to assess their potential returns accurately. A stable exchange rate reduces the risk associated with currency fluctuations, making Pakistan a more attractive destination for FDI. Conversely, exchange rate volatility can deter foreign investors. Rapid currency depreciation can erode the value of investments and reduce the attractiveness of Pakistan as an investment destination. Investors may also face difficulties in repatriating profits and dividends in a depreciating currency.

One of the key concerns for foreign investors identified in the last report and in this literature, review is the remittance of profits and dividends in Pakistan. Repatriation of profits and dividends is seen as a critical factor in attracting foreign investment, as it ensures that investors can easily transfer their earnings abroad (Tahir et al 2022).[51]If the foreign exchange regime imposes restrictions or delays on these remittances, it can discourage FDI. Investors need assurance that they can repatriate their earnings without excessive hurdles. Lack of confidence can lead to reduced FDI levels, as investors may choose to invest in countries with more transparent and investor-friendly foreign exchange policies such as Pakistan's neighbors.

While exchange rate stability is crucial, if Pakistan's foreign exchange regime does not provide mechanisms to mitigate exchange rate risk, it can deter investors. Investors need tools such as forward contracts or hedging options to protect their investments from adverse currency movements.

Pakistan can improve its foreign exchange regime by providing clear and consistent regulations regarding the repatriation of profits and dividends. Ensuring that investors can easily and predictably move their earnings out of the country is essential for FDI attraction. The foreign exchange regime should also incorporate mechanisms for investors to manage exchange rate risk effectively. This can include allowing access to hedging instruments or encouraging local currency invoicing for international transactions. Transparency in foreign exchange policies and consistent application of regulations across provinces are crucial. This can enhance investor confidence and reduce the perception of risk associated with Pakistan's foreign exchange regime.

STATUTORY FRAMEWORK

Pakistan's foreign exchange transactions are governed by a comprehensive statutory framework designed to regulate, manage, and control these activities. The key legislative acts and regulations contributing to this framework are the laws that provide the SBP authority to regulate Foreign Exchange

51 Tahir, M., Ibrahim, H., Khan, B. and Ahmed, R. (2022), "Foreign earnings repatriation: the effect of exchange rate volatility and the risk of expropriation", Journal of Economic and Administrative Sciences, Vol. ahead-of-print No. ahead-of-print. https://doi.org/10.1108/JEAS-04-2022-0092

regime and secondly the laws and requirements investors need to be aware of when they invest in Pakistan.

Foreign Exchange Regulation Act (FERA) 1947

FERA 1947 provides the legal framework for the regulation, control, and management of foreign exchange in Pakistan. FERA grants the SBP the authority to regulate and control foreign exchange transactions in Pakistan.[52] The SBP has the power to issue rules, guidelines, and directions related to foreign exchange operations to maintain stability in the market. FERA designates authorized dealers (banks and financial institutions) who are authorized to deal in foreign exchange transactions.[53] These authorized dealers are subject to regulatory oversight and must comply with the rules and regulations set by the SBP.[54] Also empowers the SBP to impose restrictions on certain foreign exchange transactions[55] to safeguard the country's economic interests. These restrictions can include limitations on the amount of foreign currency that can be held, transferred, or used for various purposes.[56] The Act also establishes the requirement for licensing[57] and permits for specific foreign exchange transactions.[58] Certain transactions, such as remittances, repatriation of profits, and foreign currency accounts, may require prior approval from the SBP or the authorized dealers.[59] FERA punishments for such which can include fines, imprisonment, or both. Lastly, it imposes obligations on individuals and entities involved in foreign exchange transactions to maintain proper records and submit periodic reports to the SBP. This ensures transparency and enables effective monitoring of foreign exchange activities.

State Bank of Pakistan Act (SBPA) 1956

The State Bank of Pakistan Act 1956 provides the legal framework for the establishment, functions, and operations of the State Bank of Pakistan. The Act establishes the State Bank of Pakistan as the central bank of the country[60] and defines the objectives[61] and functions[62] of the SBP, which include promoting monetary stability,[63] issuing currency,[64] regulating the banking system,[65] and fostering a

52 See generally, Sections 3, 3A, 3AA, 3B, 4, 5, 7, 8 & 13 of FERA 1947.
53 Section 3(1), FERA 1947.
54 Section 3(3), FERA 1947.
55 Section 4(1), FERA 1947.
56 Section 4(1), FERA 1947.
57 Section 3(2), FERA 1947.
58 Section 3(1), FERA 1947.
59 Section 3(3), FERA 1947.
60 Section 3(1), SBP Act 1956.
61 Section 4B, SBP Act 1956.
62 Section 4C, SBP Act 1956.
63 Sections 4B(2) & 4C(a), SBP Act 1956.
64 Section 4C(e), SBP Act 1956.
65 Section 4C(h), SBP Act 1956.

sound financial system.[66] The Act outlines the composition of the Board of Directors of the SBP.[67] The central board is responsible for overseeing the affairs of the SBP and formulating policies.[68]

It provides the legal backing that empowers the SBP to formulate and implement monetary policy in Pakistan[69] and grants the SBP authority to regulate money supply[70] and manage exchange rates[71] to maintain price stability[72] and support sustainable economic growth.[73] It also establishes a Monetary Policy Committee,[74] which is empowered to formulate monetary policy and set interest rates.[75]

The Act confers regulatory and supervisory powers to the SBP over banks and financial institutions operating in Pakistan.[76] It outlines the requirements for obtaining banking licenses, sets prudential regulations, and establishes mechanisms for the inspection and supervision of banks. The SBP issues licenses to authorized dealers,[77] including commercial banks and exchange companies,[78] allowing them to engage in foreign exchange transactions. It also conducts regular supervision and monitoring to ensure compliance with regulatory requirements.[79]

The Act authorizes the SBP to issue and manage the currency in Pakistan[80] and to regulate the printing, distribution, and withdrawal of banknotes and coins. Significantly, the Act empowers the Board of Directors to regulate and manage foreign exchange transactions.[81] It enables the SBP to formulate foreign exchange policies, issue guidelines, and intervene in the foreign exchange market to maintain stability and manage currency fluctuations. The SBP manages exchange rates through interventions in the foreign exchange market. The SBP plays a crucial role in facilitating international trade and payments by providing mechanisms for efficient and secure foreign exchange transactions.[82] It collaborates with other regulatory authorities to streamline trade procedures and enhance cross-border payment systems.

The SBP monitors the foreign exchange market for any irregularities, unauthorized transactions, or suspicious activities.[83] It requires market participants to submit regular reports and disclosures to ensure

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66 Sections 4B(2) & 4C(l), SBP Act 1956.
67 Section 9(2), SBP Act 1956.
68 Section 9(1), SBP Act 1956.
69 Section 4C(a), SBP Act 1956.
70 Section 4C(e), SBP Act 1956.
71 Section 4C(a), SBP Act 1956.
72 Section 4B(1), SBP Act 1956.
73 Section 4B(3), SBP Act 1956.
74 Section 9D(1), SBP Act 1956.
75 Section 9E(a), SBP Act 1956.
76 Section 4C(h), SBP Act 1956.
77 Section 3, FERA 1947.
78 Section 3AA, FERA 1947.
79 Section 20(3), FERA 1947.
80 Section 4C(e), SBP Act 1956.
81 Section 9(1)(b), SBP Act 1956.
82 Section 4C(g), SBP Act 1956. Also see, Section 17(13)(d), SBP Act 1956.
83 Section 13(4)(a), FERA 1947.

transparency and compliance.[84]It also establishes mechanisms for auditing and oversight to ensure transparency and accountability.[85]

The Foreign Exchange Manual issued by the SBP outlines the procedures, documentation requirements, and regulatory framework for market participants. Evidence of the regulatory framework can be obtained through the examination of relevant laws, circulars, and directives issued by the SBP, as well as compliance reports and guidelines provided by authorized dealers and market participants.

In the previous Round Table discussions with our stakeholders there was a consensus that as remittance of finances is vital to investors, in the form of profits, whether dividends or royalties or sale of shares. This issue on the profitability or exit for foreign investors and their business, relates to foreign exchange. As the foreign exchange is controlled by the State Bank of Pakistan, which, according to our experts, has regularly restricted such remittances, it has further led to crushing the foreign investor's interest or faith in the country.

Various experts from businesses complained that they owed significant sums to their shareholders or principal franchisers in foreign countries, yet they were not allowed to send the dividends or royalties because the State Bank has closed remittances. This they complained only perpetuated and incentivized the illegal trade of currency and the underground economy, as they legitimately had no channels of sending money outside Pakistan, which they would be under obligation to do, due to their contracts and businesses. Likewise, letters of credit (LC) were not being opened, thus no trade could legitimately take place. Such explanations were hard to share with foreign partners, and at times it seemed necessary to activate various force majeure clauses in their contracts to avoid further liabilities.

In 2020, the State Bank introduced a mechanism to facilitate remittance of disinvestment proceeds to foreign shareholders, aiming to bolster investor confidence and ease of doing business. This change delegated the authority to remit disinvestment proceeds to designated banks.

However, despite these efforts, there have been concerns about the impact of exchange controls on businesses. A volatile regulatory environment, exemplified by measures like cash margin requirements, has raised issues for businesses' stability and investment climate. Some segments of the business community perceive that these controls disrupt legitimate capital flows, especially for entities engaged in foreign direct investment.

Furthermore, Pakistan's actions in response to international obligations, particularly regarding counteracting terror financing, have prompted the need for reforms in foreign exchange regulations.

84 Section 3(4), FERA 1947.
85 Section 43, SBP Act 1956.

While monitoring illicit financial flows is crucial, it's essential to strike a balance to ensure that legitimate capital flows are not unduly hindered.

Foreign Exchange Manual (FEM)

The State Bank of Pakistan (SBP) issues the comprehensive Foreign Exchange Manual (FEM), serving as a guide for foreign exchange transactions in the country.[86] It provides extensive regulations concerning various aspects of foreign exchange operations, including transactions,[87] remittances,[88] profit repatriation,[89] foreign currency accounts,[90] and more. The FEM is a crucial reference for both market participants and banks involved in foreign exchange activities. It also addresses the roles and responsibilities of authorized dealers in foreign exchange transactions, promoting accountability and adherence to regulations.[91]

The FEM aims to establish a clear framework and guidelines for individuals, businesses, and financial institutions engaged in foreign exchange transactions.[92] Its objectives are to ensure compliance with foreign exchange regulations, enhance transparency, and promote efficiency within the foreign exchange market.[93] The manual comprehensively covers various aspects of foreign exchange transactions. This includes buying and selling foreign currencies,[94] remittances,[95] and capital flows. The FEM provides detailed guidance on rules, procedures, and necessary documentation for these transactions.[96]

It also outlines the prerequisites and procedures for entities engaging in foreign exchange transactions. This includes authorized dealers, banks, exchange companies, and money changers. The manual specifies criteria for obtaining licenses and lays out the responsibilities of licensed entities.[97] It further offers detailed guidelines for forward transactions and foreign exchange contracts. Covers scenarios like hedging, import/export, and investments to ensure efficient and compliant foreign exchange management.[98] Providing a framework for insurance business, this manual also addresses policies, payments, claims, and reinsurance. It covers life policies, foreign currency policies, and procedures for premia collection, claims settlement, and marine policies. Provisions for reinsurance business, including

[86] "State Bank of Pakistan" <https://www.sbp.org.pk/fe_manual/index.htm>
[87] Chapter 10, Foreign Exchange Manual
[88] Chapter 10, Foreign Exchange Manual
[89] Chapter 21, Foreign Exchange Manual
[90] Chapter 6, Foreign Exchange Manual
[91] Chapter 2, Foreign Exchange Manual
[92] Chapter 18, 22, Foreign Exchange Manual
[93] "State Bank of Pakistan" <https://www.sbp.org.pk/fe_manual/index.htm>
[94] Chapter 18, Foreign Exchange Manual
[95] Chapter 10, Foreign Exchange Manual
[96] "State Bank of Pakistan" <https://www.sbp.org.pk/fe_manual/index.htm>
[97] Chapter 1, Annexture-A, Foreign Exchange Manual
[98] Chapter 4, Foreign Exchange Manual

foreign currency accounts and surplus fund transfers, are outlined.[99] It also mentions the regulations regarding authorized dealers' Nostro accounts, foreign currency held by the State Bank, and exposure limits. Covers guidelines for managing exposure, transactions, and interactions with overseas entities.[100]

It also establishes reporting obligations and compliance requirements for entities involved in foreign exchange transactions. It offers guidance on reporting formats, maintaining records, and adhering to regulations related to anti-money laundering and countering financing of terrorism. This manual further focuses on securities, outlining regulations for importing and exporting securities, trading in the secondary market, and investment abroad by residents. It covers issuance of shares and securities to non-residents and reinsurance business.[101] This manual also emphasizes the submission of accurate returns to the State Bank, covering maintenance of records, reporting transactions, coding guidelines, and reporting various aspects of foreign exchange transactions.[102]

The Foreign Exchange Manual is subject to periodic updates and amendments by the SBP. These updates reflect changes in regulations, shifts in market conditions, and emerging requirements within the realm of foreign exchange.

Requirements for Investors under the FEM

An investor who intends to invest in securities in Pakistan must submit an initial application to the SBP. This application typically includes details about the investor, such as their identity, investment objectives, and the specific securities they intend to invest in.

The SBP, along with relevant authorities, will verify the investor's credentials, including their identity and financial capacity. This is to ensure that the investor meets the necessary criteria for investing in Pakistani securities. The investor is required to provide documentation that supports their eligibility to invest in Pakistani securities. This may include financial statements, references, and any other documents requested by the SBP. The investor must comply with all regulatory requirements set forth by the SBP and other relevant authorities. This includes

[99] Chapter 15, Foreign Exchange Manual
[100] Chapter 5, Foreign Exchange Manual
[101] Chapter 20, Foreign Exchange Manual
[102] Chapter 22, Foreign Exchange Manual

adhering to investment limits, disclosure requirements, and any other regulations governing foreign investment in securities.

If the investor is dealing with foreign exchange transactions related to their securities investment, they must do so through authorized dealers and in accordance with the SBP's guidelines. This may involve foreign currency accounts and exchange rate considerations. The investor is typically obligated to report their investment activities to the SBP on a regular basis. This includes providing updates on their investment portfolio, changes in ownership, and any significant transactions.

Investors are expected to comply with rules regarding the repatriation of funds. This means that any returns on investment, including dividends or capital gains, should be repatriated through authorized channels as specified by the SBP. Investors should also be aware of the tax implications of their investments. They must comply with local tax laws and regulations, including withholding taxes on income earned from securities investments.

Once the SBP receives the investor's application and verifies their eligibility, they will review the application and may grant approval for the investor to proceed with their securities investment. After approval, the investor is expected to continue complying with all regulatory requirements. The SBP and relevant authorities may monitor the investor's activities to ensure ongoing compliance.

The Companies Act, 2017

For an investor investing in Pakistan, the statutory regulation is envisaged the Companies Act, 2017.[103] Part XII (Sections 434 to 445) of the Act deals with companies established outside Pakistan and provisions as to establishment of place of business in Pakistan. This Part requires all foreign companies that establish a ‘place of business’ in Pakistan to register with the

[103] Companies Act, 2017.

Securities and Exchange Commission of Pakistan (SECP). Foreign companies have been defined to mean companies that are incorporated or formed outside Pakistan.

Pursuant to Section 435 of the Act,[104] a foreign company investing in Pakistan is required to submit the following documents to the Registrar within 30 days of the establishment of place of business or conduct of activities:[105]

1. A certified copy of the charter, statute or memorandum and articles of the company, or other instrument constituting or defining the constitution of the company, and if the instrument is not written in the English or Urdu language, a certified translation thereof in the English or Urdu language;[106]
2. The full address of the registered or principal office of the company;[107]
3. A list of the directors, chief executive and secretary (if any) of the company.[108] In the case of an individual, his required particulars. In the case of a body corporate, its required particulars.[109] It also includes the detailed particulars of secretary or joint secretaries, whatever the case may be.[110]
4. A return showing the full present and former names and surnames, father's name or, in the case of a married woman or widow, the name of her husband or deceased husband, present and former nationality, designation and full address in Pakistan of the principal officer of the company in Pakistan by whatever name called;[111]
5. The full present and former names and surnames, father's name, or, in case of a married woman or widow, the name of her husband or deceased husband, present and former

[104] Companies Act, Section 435.
[105] Companies Act, Section 435(1).
[106] Companies Act, Section 435(1)(a).
[107] Companies Act, Section 435(1)(b).
[108] Companies Act, Section 435(1)(c).
[109] Companies Act, Section 435(2)(a).
[110] Companies Act, Section 435(2)(b).
[111] Companies Act, Section 435(1)(d).

nationality, occupation and full addresses of some one or more persons resident in Pakistan authorized to accept on behalf of the company service of process and any notice or other document required to be served on the company together with his consent to do so;[112]

Registration with the State Bank of Pakistan against Issuance of Shares

Pursuant to Rule 6, Chapter 20 (Securities) of Foreign Exchange Manual,[113] the procedure and requirements of investor with State Bank of Pakistan is hereunder:

1. **Issuance of shares out of new public offers on repatriable basis**: Companies issuing shares through new public offers on a repatriable basis in Pakistan can open foreign currency collection accounts with banks, either abroad or within Pakistan, to receive subscription payments in foreign currency. It's mandatory for the amount subscribed by successful applicants to be repatriated to Pakistan, converted into the local currency, and both foreign currency accounts should be closed within a week of share allotment. To provide evidence of the repatriation of subscription money to Pakistan, the company needs to obtain a Proceeds Realization Certificate from the Authorized Dealer. This certificate, along with the prescribed form and other necessary documents, should be submitted for the registration of shares in favor of non-resident investors.[114]

2. **Remittance of subscription money directly to Rupee Account:** When subscription money is remitted directly to Pakistan and paid into the company's rupee account, only

[112] Companies Act, Section 435(1)(e).
[113] Foreign Exchange Manual, Chapter 20, Rule 6.
[114] Foreign Exchange Manual, Chapter 20, Rule 6(i).

the shares issued for the rupee equivalent amount verified by the Authorized Dealer through the Proceeds Realization Certificate(s) will be eligible for registration.[115]

3. **Shares issued to non-resident sponsors against the value of plant and machinery:** To issue shares to non-resident sponsors against the value of plant and machinery supplied by them, an application must be submitted to the area office of the Foreign Exchange Operations Department. This application should include relevant import documents such as original invoices, goods declaration, copies of bills of lading or airway bills, and import permits from the Trade Development Authority of Pakistan if required, along with any other necessary documents specified by the Foreign Exchange Operations Department.

   The Exchange Entitlement Certificate will be issued by the area office of the Foreign Exchange Operations Department, and its value will be determined as the average of interbank buying and selling rates on the dates when the goods declaration was filed with Customs. Once this certificate is obtained, the company can issue shares up to the value mentioned in the certificate to the non-resident sponsors. To complete the process, the company should approach the State Bank through the Authorized Dealer for the registration of these shares.[116]

4. **Contributions in equity by non-resident sponsors:** If non-resident sponsors wish to contribute to the equity in foreign currency and retain these payments in a foreign currency account held with an Authorized Dealer in Pakistan, the process involves the following steps:

[115] Foreign Exchange Manual, Chapter 20, Rule 6(ii).
[116] Foreign Exchange Manual, Chapter 20, Rule 6(iii).

The Authorized Dealer will issue a "Certificate of Deposit of Foreign Currency" (COD). This certificate will document the date-wise deposit of equity into the account and the exchange rate for the respective currency in effect on the date when the amount is credited to the company's foreign currency account. The exchange rate used will be the ready Exchange Rate for Mark to Market Revaluation as published by the Domestic Markets & Monetary Management Department of the State Bank of Pakistan.

After the issuance of shares equivalent to the Rupee value based on the foreign currency received in its account, the company can proceed to approach the State Bank for the registration of these shares. In summary, this process allows non-resident sponsors to contribute foreign currency to a designated account, receive Rupee equivalent shares, and then register these shares with the State Bank. The COD certificate provides documentation of the foreign currency deposit and its conversion into Rupees.[117]

5. **Issuance of shares against conversion of loan into equity on repatriable basis:** If a company intends to issue shares as part of the conversion of a loan into equity on a repatriable basis, the following steps are involved

   The company should submit an application to the State Bank through its designated Authorized Dealer. This application should include:

   - The original No Objection Certificate (NOC) or consent of the lender, duly attested by the company.
   - Board's Resolution supporting the conversion of the loan into equity.
   - Evidence of inward remittances in the form of original Proceeds Realization Certificates (PRCs).

[117] Foreign Exchange Manual, Chapter 20, Rule 6(iv).

- Documentation related to the registration of the loan, if applicable.
- Any other prescribed documents as required.

The registration of the issuance of shares will be permitted against the outstanding balance of the loan as of a specific month-end date. The issuance of shares in this context, which involves the conversion of a loan into equity, will be subject to the provisions outlined in Paragraph 6(ii), which include the determination of the minimum per-share price..[118]

6. **Issuance of Shares against Royalty, etc:** In case shares are to be issued against amount of Royalty/ Franchise/ Technical/ Consultancy Fee/ and other consideration payable to foreign entities or individuals in foreign exchange, the concerned company may issue shares to the extent of funds determined remittable and duly approved by Foreign Exchange Operations Department, SBP, BSC, Head Office, Karachi in accordance with the applicable provisions of the Manual. Accordingly, the company shall approach the State Bank for the registration of such shares along with the said authorization/ approval from the Foreign Exchange Operations Department including other prescribed documents.[119]

7. **Issuance of Shares by Banking company in Pakistan to its non-resident sponsors:** In case shares are to be issued by a Banking company in Pakistan to its non-resident sponsors, submission of consent/ NOC/ approval of SBP's Banking Policy & Regulations Department (BPRD), as applicable, shall be required in addition to other prescribed documents for registration of shares.[120]

[118] Foreign Exchange Manual, Chapter 20, Rule 6(v).
[119] Foreign Exchange Manual, Chapter 20, Rule 6(vi).
[120] Foreign Exchange Manual, Chapter 20, Rule 6(vii).

Intimation to the State Bank of Pakistan of Issues/Transferred Shares

Notably, pursuant to Rule 6 (viii), Chapter 20 of Foreign Exchange Manual,[121] the shares issued/ transferred to non-resident shareholders and duly filed with Securities and Exchange Commission of Pakistan (SECP) shall be intimated for registration with the State Bank by the company through an Authorized Dealer or its designated Authorized Dealer within 60 days from the date of issue/transfer of shares. Such application shall accompany with the form prescribed in Appendix V- 95 or Appendix V- 96, as the case may be, along with the following documents and other prescribed documents viz. Certificate of Incorporation/ Registration, Certificate of Commencement of Business, Certificate of Change of Name, Memorandum and Articles of Association etc., if not already submitted:

1. In case of issue of ordinary shares, Proceeds Realization Certificate (PRC) bearing distinctive numbers in original (Appendix V-97) with copies of the return of allotment of shares (Form-3), latest list of directors (Form-29) and annual return of company having share capital (Form-A) filed by the company with the SECP.[122]

2. In the case of issue of right shares, Proceeds Realization Certificate (PRC) bearing distinctive numbers in original, copies of the related returns of SECP along with Board’s Resolution.[123]

3. In the case of issue of bonus shares, Appendix V- 96 duly certified by the Auditor to the effect that issuance of bonus shares is in accordance with the existing applicable

[121] Foreign Exchange Manual, Chapter 20, Rule 6(viii).
[122] Foreign Exchange Manual, Chapter 20, Rule 6(viii)(a).
[123] Foreign Exchange Manual, Chapter 20, Rule 6(viii)(b).

laws and the audited accounts for the respective year, a copy of Board's Resolution, , and copies of the related returns filed by the company with the SECP.[124]

4. In the case of issue of ordinary shares against equity contributed in the shape of plant and machinery under paragraph 7(iii) Exchange Entitlement Certificate issued by the area office of Foreign Exchange Operations Department in original.[125]

5. In the case of issue of ordinary shares under paragraph 7(iv) against equity deposited in a foreign currency account, Certificate of Deposit of Foreign Currency" (Appendix V-97A) bearing distinctive number in original.[126]

6. In the case of transfer of listed shares, Stockbroker's Memo and PRCs in respect of the cost of shares and transfer stamp money, both in original. Where the sale of shares is negotiated privately, share purchase agreement and the price of the share on Pakistan Stock Exchange on the date of transaction, should be furnished.[127]

7. In the case of transfer of shares of un-listed companies, Auditor's certificate in original for breakup value as on month-end-date immediately preceding to the transaction date, a copy of the audited accounts of the respective year, documentary evidence of the agreed sale price and original PRCs in respect of cost of shares and transfer stamp money.[128]

8. In the case of transfer of shares from one non-resident to another non-resident against payment outside Pakistan, certificate from the transferee and PRCs for transfer stamp duty both in original.[129]

[124] Foreign Exchange Manual, Chapter 20, Rule 6(viii)(c).
[125] Foreign Exchange Manual, Chapter 20, Rule 6(viii)(d).
[126] Foreign Exchange Manual, Chapter 20, Rule 6(viii)(e).
[127] Foreign Exchange Manual, Chapter 20, Rule 6(viii)(f).
[128] Foreign Exchange Manual, Chapter 20, Rule 6(viii)(g).
[129] Foreign Exchange Manual, Chapter 20, Rule 6(viii)(h).

Further Requirements for Foreign Investors

Pursuant to Rule 7, Chapter 20 of Foreign Exchange Manual,[130] to enhance due diligence with respect to export of securities to non-resident investors, Authorized Dealers are required to submit the following documents/information about non-resident investors (where applicable) in addition to the existing requirements:

1. Formal Share Purchase Agreement or equivalent between the Investor & Investee.[131]
2. Business profile containing ownership, organization/group, locations, markets and products.[132]
3. Promoters'/ Directors' names, addresses, national ID/passport numbers & country of domicile.[133]
4. Certificate of Incorporation or equivalent issued/ acknowledged by the relevant Authority.[134]
5. Memorandum & Articles of Association or equivalent registered with the relevant Authority.[135]
6. Annual Audited Financial Statements with Auditors' report & notes thereon for the last year.[136]
7. Pattern of Shareholders (name, national identity number & shares held) or equivalent.[137]

Related Party details including beneficial ownership with aforementioned documents, if any.[138]

[130] Foreign Exchange Manual, Chapter 20, Rule 7.
[131] Foreign Exchange Manual, Chapter 20, Rule 7(a).
[132] Foreign Exchange Manual, Chapter 20, Rule 7(b).
[133] Foreign Exchange Manual, Chapter 20, Rule 7(c).
[134] Foreign Exchange Manual, Chapter 20, Rule 7(d).
[135] Foreign Exchange Manual, Chapter 20, Rule 7(e).
[136] Foreign Exchange Manual, Chapter 20, Rule 7(f).
[137] Foreign Exchange Manual, Chapter 20, Rule 7(g).
[138] Foreign Exchange Manual, Chapter 20, Rule 7(h).

Analysis of FEM

The Foreign Exchange Manual covers a wide range of aspects related to foreign exchange transactions. These regulations are designed to ensure transparency, compliance, and effective management of various foreign exchange activities. The text is organized into chapters, each addressing specific topics such as authorized dealers, restricted authorization for foreign exchange dealings, forward exchange facilities, Nostro accounts and foreign exchange limits, private foreign currency accounts, non-resident rupee accounts, imports, exports, commercial remittances, insurance, travel, and more.

During the previous roundtable discussions, it was highlighted that the Manual and instructions need attention, and the two main issues were that there was a lack of knowledge among the investors regarding the manual and its clauses.[139] *Secondly there were deficiencies within the manual that created excessively high barriers for investment seeking to remit profits, dividends etc. leading to reluctance in investment in Pakistan compared to other jurisdictions.*[140] *Experts in legal and accounting firms shared that while there was a great deal of confusion and problem with the State Bank's approach, a significant part of the issue was also the lack of awareness and expertise pertaining to the Foreign Exchange Manual, which governed the transfer and caps on dividends, royalties, and other such remittances.*

While the text presents a comprehensive framework for managing foreign exchange transactions, there are potential concerns, including inconsistent terminology, repetition, and complexity. Some regulations might be interrelated and could benefit from clearer cross-references. Additionally, punitive measures for violations could discourage participation, and more practical examples could enhance understanding. It's important to consider the readability, real-world implications, and ongoing updates of these regulations for optimal effectiveness.

The Foreign Exchange Manual can seem complex and difficult to understand for non-experts. It often requires legal or financial expertise to interpret, which can create barriers for individuals and smaller businesses looking to engage in foreign exchange transactions. The manual also may not keep pace with rapid changes in the global financial landscape and technological advancements. This can lead to outdated guidelines that don't reflect current market practices, potentially causing confusion for market participants.

[139] Foreign Direct Investment And Doing Business In Pakistan : Issues And Solutions SAZH Consulting LLP and The Asia Foundation, 2022. https://www.sazh.consulting/report-abridged

140 *ibid*

Moreover, in the previous roundtable it was highlighted that the State Bank restricts the flow of currency through the Foreign Exchange Manual (FEM), which comes from the 1947 Act. As per our legal expert, the Foreign Exchange Manual has capped royalties thus restricting people from sending royalties legally. Every company that must send royalties abroad to its franchiser could potentially face contractual breach liabilities as a result of the cap on the clause of royalties. One expert shared that a solution suggested to him was to establish a company in the US, which will hold his company as a subsidiary. As subsidiary payments are not capped in the manner royalties would be, he would be free to remit the money to his holding company in the US, following which he may then send the money to the actual recipient which may be his franchiser. He shared that such a convoluted solution to a simple matter of transferring money legally, should not be his only option.

Other Laws Affecting the Foreign Exchange Regime

Protection of Economic Reforms Act (PERA) 1992

This act aims to promote economic reforms and deregulation in Pakistan. It allows for the liberalization of foreign exchange transactions, removal of restrictions on trade and investment, and simplification of foreign exchange regulations.

PERA envisages that all the citizens of Pakistan, either residing in Pakistan or outside of Pakistan, and all other persons shall be entitled and free to bring, hold, sell, transfer and take out foreign exchange within or out of Pakistan in any form,[141] however there are certain exceptions.[142]

This Act provides immunity to the citizens of Pakistan, either resident in Pakistan or out of Pakistan, holding foreign currency accounts in Pakistan and all such other persons holding such accounts, against any inquiry from Income Tax Department or any other taxation authority as to the source of financing of such accounts.[143] However, such immunity is not available for the accounts opened or deposited on or after 16th day of December, 1999 or to any incremental deposits thereafter in an existing foreign currency account.[144]

This Act provides protection to the foreign and Pakistani investment. It envisages that no foreign, industrial or commercial enterprise established or owned in any form by a foreign or Pakistani investor for private gain in accordance with law, and no investment in share or equity of any company, firm, or enterprise, and no commercial bank or financial institution established, owned or acquired by any

141 Section 4(1), Protection of Economic Reforms Act 1992.
142 Section 4(2), PERA 1992.
143 Section 5(1), PERA 1992.
144 Proviso to Section 5(1), PERA 1992.

foreign or Pakistani investor, shall be compulsorily acquired or taken over by the Government.[145] It also empowers the Federal Government to make necessary rules for carrying out the purposes under the Act.[146]

In April 2018, Pakistan amended the Protection of Economic Reforms Act (PERA) to prevent individuals and entities not filing taxes from operating foreign currency bank accounts. This change aimed to address the country's significant current account deficit and dwindling foreign exchange reserves. Initially designed to aid citizens and businesses, PERA's misuse had adverse consequences. Pakistan was placed on the Financial Action Task Force (FATF) terror financing watch list in June 2018, leading to stricter regulations and bureaucratic hurdles for businesses involved in foreign investment.

FERA (Foreign Exchange Regulation Act) has also seen recent changes through supplementary finance bills in 2017, 2018, and 2019. These amendments aimed to regulate fund outflows via foreign currency accounts and local transport of foreign exchange, while providing greater clarity to the legal system. These changes align with the government's objective to enhance transaction transparency, particularly in its efforts to combat corruption and money laundering. Over time, amendments were proposed to the Foreign Exchange Regulations Act (FERA) to enhance punishment and empower authorities to take action against illegal foreign exchange operators. Notably, a new section was introduced to restrict free movement of foreign exchange within the country.

Anti-Money Laundering (AML) Laws

The Anti-Money Laundering Act (AMLA) 2010 is a crucial legislation in Pakistan aimed at combating money laundering, terrorism financing, and financial crimes. It seeks to protect the country's financial system, restore foreign investor confidence, and fulfill international obligations.[147]

The Act criminalizes money laundering and terrorist financing, imposing severe penalties on offenders. It defines money laundering as acquiring, possessing, or transferring proceeds of a crime to conceal their origin. It prescribes imprisonment and fines for offenders and allows for property confiscation.[148]

Reporting entities like financial institutions, banks, and securities brokers have obligations under the Act. They must maintain transaction records, conduct Customer Due Diligence (CDD), and report suspicious transactions to the Financial Monitoring Unit (FMU).[149]

145 Section 8, PERA 1992.
146 Section 11, PERA 1992.
147 Preamble, AMLA 2010
148 Section 3 and 4, AMLA 2010.
149 Section 7, AMLA 2010.

The FMU is established to gather, analyze, and share financial intelligence related to money laundering and terrorism financing. It aids investigations and prevents illicit financial activities.[150] Entities must perform CDD to identify customers, monitor transactions, and assess risks. They need to maintain transaction records and customer data for at least five years. Reporting entities are mandated to report suspicious transactions to the FMU and competent authorities.[151] Criteria for identifying suspicious transactions and reporting timeframes are specified. Authorities are empowered to seize and forfeit assets involved in money laundering or terrorism financing. The Act provides legal procedures for freezing and confiscating such assets.[152]

Exchange Companies Manual

The SBP also issues guidelines and regulations specific to exchange companies operating in Pakistan. The Exchange Companies Manual outlines the requirements, licensing procedures, capital adequacy, reporting obligations, and operational guidelines for exchange companies engaged in foreign exchange transactions.[153]

Prudential Regulations

The SBP issues prudential regulations to ensure the soundness and stability of financial institutions operating in the foreign exchange market.[154] These regulations cover areas such as capital adequacy, risk management, internal controls, and reporting requirements. Prudential regulations aim to maintain the integrity and stability of the financial system.

Exchange Control Regulations

These are regulations introduced by the SBP to manage capital flows and maintain stability in the foreign exchange market. Exchange control regulations govern transactions related to the import and export of goods, remittances, foreign investment, and foreign borrowing.

Exchange controls were initially implemented in Pakistan in 1952, coinciding with the overvaluation of the Rupee. These controls aimed to manage foreign exchange flows and prevent foreign exchange payments from exceeding receipts. To achieve this, a system was established where exporters had to directly deposit their foreign earnings with the State Bank. However, these controls had implications for import substitution policies, resulting in import volume ceilings, complex licensing procedures, and various deterrents. In 1950s, Pakistan joined the International Monetary Fund (IMF), adhering to Article VIII that discourages restrictions on current international transactions. The exchange control

150 Section 6, AMLA 2010.
151 Section 7A to 7C, AMLA 2010.
152 Section 14, AMLA 2010
153 Exchange Companies manual https://www.sbp.org.pk/epd/ec/2021/EC-Manual.pdf
154 Numerous Regulations available: https://www.sbp.org.pk/publications/prudential/index.htm

system involved elaborate licensing processes with fixed ceilings for different imports, issued under three categories: commercial, industrial, and investment licenses.

Electronic Funds Transfer Regulations

These regulations are designed to govern electronic funds transfers, including cross-border transactions. They aim to enhance transparency, security, and efficiency in electronic payment systems.[155]

These laws collectively form the legal framework that regulates foreign exchange transactions in Pakistan. They aim to balance the objectives of promoting economic growth, ensuring financial stability, and maintaining proper controls on capital flows.

Analysis of the Statutory and Policy Framework of the Foreign Exchange Regime in Pakistan

Due to the complexity of the regulations, we have illustrated, it is argued that they can hinder economic growth and investment. Excessive regulations and controls can discourage foreign investors and create obstacles for businesses. Some laws might lack flexibility to adapt to changing market conditions. This could result in challenges when addressing unforeseen circumstances or market disruptions. The complex approvals and procedures related to foreign exchange transactions are contradictory sometimes and time-consuming as they involve different entities on federal and provincial levels. This can discourage foreign investors and create inefficiencies for businesses.

While determining if a measure constitutes a restriction on payments and transfers as per Article VIII, Section 2 of the International Monetary Fund (IMF) guidelines, the key factor is whether it directly limits the availability or use of exchange.[156] However, as outlined in the IMF's 2017 staff report,[157] Pakistan maintained exchange restrictions and engaged in multiple currency practices. One such practice involved imposing a 100 percent cash margin requirement on various consumer goods imports.[158] This stricter measure, introduced in February 2017, added cash margin requirements to letters of credit for imports and prohibited non-tax filers from crediting foreign exchange accounts with cash in foreign currencies. These measures were implemented to address the widening current account

[155] Electronic Funds Transfer Regulations https://www.sbp.org.pk/psd/2018/C3-Annex-A.pdf
[156] Article VIII, Section 2, Articles of Agreement of the International Monetary Fund (July 22, 1944)
[157] International Monetary Fund (2017). Article IV Consultation - Press Release; Staff Report; Informational Annex; and Statement by the Executive Director for Pakistan, July 2017, IMF Country Report No. 17/212
[158] State Bank of Pakistan Press Release, External Relations Department 2017 https://www.sbp.org.pk/press/2017/Pr-24-Feb-17.pdf#:~:text=State%20Bank%20of%20Pakistan%2C%20in%20exercise%20of%20powers,would%20have%20nominal%20impact%20on%20the%20general%20public.

deficit. In contrast, several other countries were easing their exchange controls by removing restrictive measures on various transactions.

Furthermore, Pakistan introduced a cash margin requirement for letters of credit for imports, which became more stringent in 2018 by adding an additional 131 non-essential items to the list. This requirement was later completely waived for certain goods in 2019.[159] This environment of volatility negatively impacts existing businesses and creates an unfavorable investment climate. Certain segments of the business community believe that these foreign exchange regulations in Pakistan unnecessarily control capital flows, disrupting the legitimate movement of capital, particularly for entities involved in foreign direct investment.

In addition to the objective of curbing illicit financial flows, Pakistan has also had to reform its foreign exchange regulations to meet international obligations related to counteracting terror financing. In June 2018, Pakistan was placed on the Financial Action Task Force (FATF) 'grey list' due to perceived shortcomings in measures against terror financing. While monitoring such flows to prevent money laundering is essential, it shouldn't impede the flow of legitimate capital.

The literature review identifies the following issues businesses/ investors face due to the Foreign Exchange Laws and regulations:

- Pakistan's foreign exchange regulations are designed to impede the movement of currency out of the country, particularly capital outflows.
- The regulatory policies enforced by the State Bank of Pakistan and other governing bodies do not create a favorable environment for attracting Foreign Direct Investment (FDI) to the country. These regulatory constraints hinder foreign investors' ability to enter the market, effectively utilize funds, and exit investments in startups and venture capital firms in Pakistan.
- The process of raising equity share capital is excessively challenging due to unwarranted restrictions and a climate of uncertainty.
- Clauses within the Foreign Exchange Manual issued by the State Bank of Pakistan restrict Pakistani tax residents from acquiring shares in foreign companies without prior approval from the SBP.
- Frequent changes in regulations create a state of constant uncertainty within the business landscape.
- Inefficient communication, delayed procedures, and the absence of standardized operating protocols lead to financial losses for both investors and companies.
- The State Bank of Pakistan relies on intermediary banks for transactions, often communicating verbally, resulting in inadequate records for formal proceedings. Clarifications for queries are often prolonged and can take several months to resolve disputes.

[159] State Bank of Pakistan (2021), SBP Imposes 100% Cash Margin Requirement on Import of additional 114 items, ERD/M&PRD/PR/01/2021-106 Dated: September 30, 2021.

- According to the State Bank of Pakistan, Chapter 19, Section 15 of its Foreign Exchange Manual permits foreign-controlled companies to secure foreign currency loans for working capital needs from overseas banks or financial institutions. These loans are subject to certain conditions, including a repayment period not exceeding twelve months and an interest rate not exceeding 1% over LIBOR. Such loans can be extended for additional periods, each not exceeding twelve months.
- In times of declining foreign exchange reserves, the government, in conjunction with the State Bank, enforces various regulations to curb capital flight. However, this approach often leads to a loss in potential investments and adversely affects local businesses.

LESSONS FROM OTHER COUNTRIES

Analyzing the exchange rate policies of countries within the region or similar economic conditions offers a nuanced perspective. Rajan and Zingales (2003) emphasize the importance of understanding neighboring countries' experiences in policy formulation.[160] Ahuja and Nabar (2012) have examined the impact of exchange rate regimes on trade balances in India[161]. Hasan and Razzaq (2017) have explored how exchange rate volatility affects trade in Bangladesh.[162] These studies provide frameworks for how these countries were able to increase their FDI through better Foreign Exchange Regime management.

China

China has recently implemented a series of initiatives aimed at facilitating cross-border transactions and improving the business environment for foreign investors and domestic enterprises. These measures include removing restrictions on domestic equity investment for certain foreign investment enterprises, expanding pilot schemes to ease foreign exchange transactions, relaxing limits on capital account settlement, reforming foreign loan registration, allowing more foreign exchange accounts for capital, and extending domestic credit asset transfers to foreign countries.[163] These initiatives were introduced

[160] Raghuram G. Rajan and Luigi Zingales, "The Great Reversals: The Politics of Financial Development in the Twentieth Century," Journal of Financial Economics 69, no. 1 (2003): 5-50, 1(https://web.pdx.edu/~ito/Rajan_Zingales.pdf).
[161] Ahuja, Ashvin and Nabar, Malhar, Investment-Led Growth in China: Global Spillovers (November 2012). IMF Working Paper No. 12/267, Available at SSRN: https://ssrn.com/abstract=2191312
[162] Abdullah, S.M., Siddiqua, S., Siddiquee, M.S.H. et al. Modeling and forecasting exchange rate volatility in Bangladesh using GARCH models: a comparison based on normal and Student's t-error distribution. Financ Innov 3, 18 (2017). https://doi.org/10.1186/s40854-017-0071-z
[163] State Administration of Foreign Exchange, Circular of the State Administration of Foreign Exchange Further Promoting Cross-border Trade and Investment Facilitation, Index No. 000014453-2019-0331, 25-10-2019, available at https://www.safe.gov.cn/en/2019/1025/1596.html [accessed 9 Sep 2023]

by China's State Administration of Foreign Exchange to create a more flexible and conducive investment landscape.[164]

China has also introduced "One Window, One Form" policy, which is designed to make business registration easier by cutting red tape and bureaucratic steps for businesses.[165] As a result, foreign-funded enterprises will be able to submit a single form to a single office, rather than register separately with various government offices.[166]

The "one window operation" setup, initially designed for goods and services trade, has been extended to include foreign exchange of capital, simplifying customs clearance, documentation, regulatory oversight, and connections with major ports. These initiatives not only provide flexibility in investment structures for foreign investors but also expedite equity transactions between local businesses and foreign investors.

China has also raised quotas for enterprises holding foreign exchange earnings under the current account, enabled enterprises with authentic trade activities to purchase foreign exchange in advance, simplified foreign exchange purchase and payment procedures for trade in services, and set annual foreign exchange purchase and sales quotas for individuals.[167]

While China maintains control over capital outflows, it maintains a favorable stance toward foreign direct investment, evidenced by its steady portfolio investment rates compared to other emerging economies. This reflects the effectiveness of China's regulations in promoting a stable investment environment.

Malaysia

Malaysia is the second fastest growing economy in the South East Asian region[168] and it has been recognized as one of the most popular destinations for Foreign Direct Investment (FDI) in Southeast Asia.[169] Since independence in 1957, Malaysia has moved from an agriculturally based economy to a more diversified and export oriented one.[170] The Malaysian market is fairly openly oriented, with tariffs only averaging approximately fifteen percent and almost non-existent non-tariff barriers and foreign

[164] *Ibid.*
[165] China Briefing, China's 'One Window, One Form' to Streamline Foreign Business Registration, March 13, 2018 <https://www.china-briefing.com/news/china-implement-one-window-one-form-foreign-business-registration/#:~:text=The%20%E2%80%9COne%20Window%2C%20One%20Form,separately%20with%20various%20government%20offices.> [9 Sep 2023]
[166] *Ibid*
[167] People's Bank of China (2008a) China: the evolution of foreign exchange controls and the consequences of capital flows. In: Paper No 44, Bank of International Settlements. Basel, Switzerland, pp 143–151, page. 143.
[168] Har, Wai-Mun, Kai-Lin Teo, and Kar-Mun Yee. "FDI and economic growth relationship: An empirical study on Malaysia." International Business Research 1.2 (2008): 11-18
[169] Fadhil, Mohammed Ameen, and Mahmoud Khalid Almsafir. "The role of FDI inflows in economic growth in Malaysia (time series: 1975-2010)." *Procedia economics and finance* 23 (2015): 1558-1566.
[170] Har, Wai-Mun, Kai-Lin Teo, and Kar-Mun Yee. "FDI and economic growth relationship: An empirical study on Malaysia." International Business Research 1.2 (2008): 11-18.

exchange controls.[171] With a stable political environment, increasing per capita income, and the potential for regional integration throughout the Association of South East Asian Nations (ASEAN), Malaysia is an attractive prospect for FDI.[172]

Notably, the vital clues for foreign direct investment in Malaysia include political stability, economic stability, lower wages, and easy accessibility to plentiful raw material, special rights, and person safety.[173] In Malaysia, Foreign investors can possess 100% equity in new projects, expansion, and diversification ventures within existing companies,[174] albeit subject to industry-specific regulations issued by relevant government departments. Certain sectors impose restrictions on foreign equity ownership and necessitate regulatory approvals before commencing business operations. While the central bank, Bank Negara Malaysia governs exchange transactions,[175] the country's foreign exchange administration rules have progressively become more liberal to foster competitiveness.[176] These rules allow access to domestic financing, settlement for trade, repatriation of foreign direct investments (including capital, profits, dividends, divestment proceeds, and interest), and borrowing in local currency by non-residents.[177]

India

In India, the Foreign Exchange Management Act (FEMA), 1999 governs foreign exchange control. [178] FEMA's objective is to facilitate external trade and payments, encourage organized development of the foreign exchange market, and promote economic policy liberalization. Under FEMA, capital account transactions entail no restrictions for residents regarding holding, owning, transferring, or investing in foreign currency, foreign securities, or immovable property located outside India.[179] Nevertheless, the Reserve Bank of India reserves the authority to regulate the establishment of branches, offices, or other business entities in India by non-residents.[180] These restrictions, though more lenient than those in Pakistan's Foreign Exchange Regulations Act (FERA) 1947,[181] share similarities in nature. Attracting foreign investment has remained a central focus, initially under the 'Make in India' initiative and more recently under the 'Aatmanirbhar Bharat Abhiyan' campaign. The government has diligently pursued reforms across various domains assessed by the World Bank's 'Doing Business' framework, with a

[171] *Ibid.*
[172] *Ibid.*
[173] *Ibid.*
[174] See, Equity Policy, available at https://www.mida.gov.my/setting-up-content/equity-policy-protect-foreign-investment/ [accessed 9 September 2023].
[175] Financial Services Act, 2013, Section 6(a)(ii).
[176] See, Foreign Exchange Administration, available at <https://www.ocbc.com.my/iwov-resources/my/ocbc/premier/pdf/premier-voyage-3/fea-rules.pdf> [accessed 13 September 2023].
[177] *ibid*
[178] Foreign Exchange Management Act, 1999 (Act No. XLII of 1999) (Parliament of India)
[179] Acharya, M. (2021). Foreign Exchange Management Act – FEMA. *Cleartax*. https://cleartax.in/s/fema-foreign-exchange-management-act
[180] Section 6, Foreign Exchange Management Act, 1999 (Act No. XLII of 1999) (Parliament of India).
[181] Foreign Exchange Management Act, 1999 (Act No. XLII of 1999) (Parliament of India)

particular emphasis on aspects such as tax procedures, cross-border trade, and insolvency resolution.[182] Consequently, India has made impressive strides in improving its business environment in recent years, demonstrating a steadfast commitment to reform. India has ascended from the 130th position in 2016 to the 63rd spot in 2020 in terms of overall ease of doing business rankings. Nevertheless, there remains a significant gap to bridge when compared to Asian counterparts like China (31st) and Thailand (21st). The positive transformation in India's investment climate is also evident in the OECD's FDI Regulatory Restrictiveness Index, where India's FDI restrictions decreased from 0.244 in 2015 to 0.207 in 2019, outperforming China's 0.244. However, India still trails behind some of its FDI competitors, notably Vietnam (0.130).[183]

Turkey

Turkey, the 17th largest global economy with a GDP of $721 billion, has experienced significant economic growth, tripling its GDP per capita from 2002 to 2016.[184] After the 2001 economic crisis, Turkey underwent substantial structural changes in its finance sector, contributing to economic and political stability and an average growth rate of 5%, albeit with fluctuations.[185] In terms of portfolio investments, legal residents outside Turkey can freely buy and sell Turkish securities and capital market instruments through intermediary banks and brokerage firms in the country. Foreign investors can purchase shares and securities of Turkish companies through authorized brokerage firms, although special approvals are needed for ownership exceeding certain thresholds in regulated companies.[186]

Turkey's foreign investment legislation was revamped in 2003 with investor-friendly reforms. Turkey implemented various measures to attract Foreign Direct Investment (FDI) with a friendly approach. These actions encompassed safeguarding corporate liquidity, preserving employment opportunities, and maintaining household incomes. Additionally, the government adjusted its investment incentives during the pandemic, emphasizing the attraction of FDI and the promotion of eco-friendly investments. The pandemic magnified preexisting structural issues, notably high unemployment, and the extensive informal economy, impacting informal sector workers and self-employed individuals the most.[187]

Turkey demonstrated its commitment to environmental sustainability by ratifying the Paris Agreement in 2021 and advancing its green initiatives. To continually entice FDI, Turkey regularly updates its FDI incentive packages. Notably, in 2021, these incentives were revamped to encompass a greater focus on

[182] World Bank (2018). Doing Business 2018: Reforming to Create Jobs, A World Bank Group Flagship Report, 15th Edition, pp. 131-132.
[183] DELHI POLICY GROUP. (n.d.). *FDI flows to India: recent trends, challenges and way forward*. https://www.delhipolicygroup.org/publication/policy-briefs/fdi-flows-to-india-recent-trends-challenges-and-way-forward-2225.html
[184] *Overview*. (n.d.). World Bank. https://www.worldbank.org/en/country/turkey/overview
[185] Görmez, Y. & Yiğit, S. (2009). The Economic and Financial Stability in Turkey: A historical perspective. National Bank of Serbia, SEEMHN Papers. <https://www.researchgate.net/publication/46469243_The_economic_and_financial_stability_in_Turkey_a_historical_perspective>
[186] Mehran, H., Quintyn, M.G., & Laurens, B.J. (1996). Interest Rate Liberalization and Money Market Development. International Monetary Fund, pp. 179. <https://doi.org/10.5089/9781557755636.071>.
[187] Foreign Direct Investment Law (Law No. 4875) (Turkey) (17 June 2003).

green projects, as recognized by the Ministry of Industry and Technology. Furthermore, it's worth noting that there are approximately 1,700 U.S. businesses actively engaged in Turkey. In 2021, Turkey witnessed a notable increase in investment inflows, reaching USD 14.1 billion, marking a 19 percent surge from 2019 and the highest level recorded in the past five years.

The Foreign Direct Investment Law simplified procedures, eliminated bureaucratic formalities, and emphasized equal treatment. This law eliminated the need for foreign investors to obtain permissions or approvals and only requires them to provide statistical information to the General Directorate of Incentive Practices and Foreign Capital for record-keeping purposes.[188]

The Foreign Direct Investment Law also removed restrictions on foreign entities establishing branches in Turkey, while companies are required to report annually and notify completed transactions to the General Directorate of Incentive Practices and Foreign Capital.[189] These regulatory changes have improved Turkey's business climate, as evidenced by its ranking 56.9, making its economy the 104th freest in the 2023 Index of economic freedom.[190] However, challenges remain, including bureaucratic hurdles and lack of transparency, which affect dynamic foreign investment flows.

Bangladesh

Bangladesh stands out among the Least Developed Countries (LDCs) due to its relative success in economic and rural development. At the time of its independence in 1971, Bangladesh inherited a small stock of FDI, primarily driven by Transnational Corporations (TNCs) targeting a domestic market protected by import-substitution policies. Since then, Bangladesh has actively sought foreign investment to bridge its savings-investment gap and rectify its export-import imbalance.[191]

Over the past two decades, the nation has deregulated and liberalized its foreign investment framework, largely as part of a Structural Adjustment Policy (SAP) supported by international institutions such as the World Bank and IMF.[192] Additionally, Export Processing Zones (EPZs) were established to encourage FDI inflow. Capital markets were opened to foreign portfolio investments in both primary and secondary markets. The government of Bangladesh has outlined five key sectors in which FDI is encouraged, either through joint ventures or up to 100% foreign ownership: i) export-oriented industries, ii) industries in EPZs,[193] iii) high-technology-based industries with an emphasis on import

[188] *Ibid.*
[189] Doing Business in Turkey: Protection of foreign investments. (n.d.). *Global Law Firm | Norton Rose Fulbright*. https://www.nortonrosefulbright.com/en/knowledge/publications/24eaf8a4/doing-business-in-turkey-protection-of-foreign-investments
[190] *Türkiye economy: population, GDP, inflation, business, trade, FDI, corruption*. (n.d.). Index of Economic Freedom. https://www.heritage.org/index/country/turkey
[191] Rayhan, Mohammed Abu, "Contribution of Foreign Direct Investment to Economic Growth in Bangladesh" (2014). Masters Theses. 1339. https://thekeep.eiu.edu/theses/1339
[192] *ibid*
[193] *Ibid.*

substitution or export orientation, iv) basic industries reliant on local raw materials and investments in quality improvement and marketing, and v) physical infrastructure projects, including Build-Operate-Own (BOO) and Build-Operate-Transfer (BOT) ventures.[194]

To provide legal protection to foreign investors, Bangladesh enacted the Foreign Private Investment Act 1980,[195] guaranteeing safeguards against nationalization and expropriation, as well as ensuring repatriation of profits, capital, and dividends, along with equitable treatment compared to local investors. Intellectual property rights, including patents, designs, trademarks, copyrights, are protected. Bilateral Investment Guarantee agreements have been established to prevent double taxation, and Bangladesh is a signatory to international conventions like the International Convention for Settlement of Investment Dispute (ICSID), The Multilateral Investment Guarantee Agency (MIGA), and a member of the World Intellectual Property Organization (WIPO) and the World Association of Investment Promotion Agencies (WAIPA).[196] These memberships align with the SAP and uphold international standards, safeguarding property and other rights of foreign investors.

Bangladesh has also embraced trade liberalization by reducing import duties, establishing customs and bonded warehouses to support exporters, permitting free repatriation of profits, and achieving near-full convertibility of the Taka, its local currency, on the current account. FDI only necessitates registration with the Board of Investment (BOI) or Bangladesh Export Processing Zone Authority (BEPZA),[197] eliminating the need for prior approval. Financial incentives are another integral part of Bangladesh's strategy to encourage FDI. They consist of cash incentives and export subsidies ranging from 5% to 20% of the Free on Board (FOB) value of select products, the availability of loans up to 90% against letters of credit, funds to promote exports, an export credit guarantee scheme, and the authorization for export-oriented companies operating outside Export Processing Zones (EPZs) to conduct domestic market sales of up to 20% of their production.[198]

Bangladesh offers several supplementary facilities to foreign investors. These include the allowance of 100% foreign equity, a flexible exit policy, the remittance of royalty, technical know-how, and technical assistance fees, full repatriation of dividends and capital upon exit, the opportunity to obtain citizenship by investing a minimum of US $5,00,000, permanent resident permits for those investing US $75,000,

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[194] Bhattacharya, D. (2005). "Bangladesh's Experience with Foreign Direct Investment", in Foreign Direct Investment: High Risk, Low Reward for Development, pp. 51-66, Bonn: Church Development Service (EED).
[195] Foreign Private Investment (Promotion and Protection) Act, 1980 (Act No. XI of 1980) (Bangladesh).

[196] Government of the People's Republic of Bangladesh (2021). Comprehensive Study on Policy Regime of FDI of Cross Countries (Bangladesh, Vietnam, India, Sri Lanka and Myanmar) Analysis. Bangladesh Investment Development Authority (BIDA), Prime Minister's Office, June 2021. https://bida.gov.bd/storage/app/uploads/public/62e/7c3/b4a/62e7c3b4a0ed7957972733.pdf
[197] Rayhan, Mohammed Abu, "Contribution of Foreign Direct Investment to Economic Growth in Bangladesh" (2014). Masters Theses. 1339. https://thekeep.eiu.edu/theses/1339
[198] Alam, M. S. Foreign Direct Investment in Bangladesh: A Critical Analysis 2012, South East Asian Journal of Contemporary Business, Economics and Law, Vol. 1 ISSN 2289-1560<https://seajbel.com/wp-content/uploads/2014/07/Foreign-Direct-Investment-In-Bangladesh-A-Critical-Analysis-Dr.-Md.-Shah-Alam.pdf >

and the flexibility for investors to wind up their investments with proper authorization from the central bank, enabling them to repatriate sales proceeds as needed. These comprehensive incentives and facilities collectively aim to make Bangladesh an attractive destination for foreign direct investment, fostering economic growth and development in the country.[199]

In 2018, Bangladesh attracted the largest amount of Foreign Direct Investment (FDI), totaling $3.61 billion, as reported in the recently released World Investment Report 2023 by the United Nations Conference on Trade and Development (UNCTAD).[200] The report, published on July 5th, 2023, further reveals that as of 2022, the cumulative FDI inward stock in the country had reached $21.1 billion. UNCTAD acknowledges Bangladesh's increasing commitment to establishing the necessary regulations, standards, and incentives to promote the creation of sustainability-focused products in key sectors.

RECOMMENDATIONS FROM OTHER ECONOMIES

Countries should maintain friendly and open foreign exchange regimes. To attract capital inflows and benefit from open regimes, countries need a conducive business environment, stable regulations, and active competitiveness policies. Turkey and Malaysia improved their economies through foreign direct investment by enhancing transparency, reducing government regulations, and minimizing bureaucracy and corruption.

Pakistan needs to simplify procedures for foreign investment, ensure equal treatment for local and foreign firms, and reduce bureaucratic formalities to foster a healthy business environment. There's a gap between regulatory authorities and the private sector in Pakistan, necessitating constant communication and collaboration. Enhancing ease of doing business, access to imports, and labor markets will positively impact Pakistan's economy.

Recommendations:

- Pakistan should adopt measures to open its economy, ensure capital freedom, and simplify procedures for foreign investment.
- Firms in Pakistan should be allowed to make advance payments for international services after scrutiny.

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199 *ibid*
200 Ali, M. (2023, July 11). Bangladesh receives 2nd highest FDI in its history in 2022: Unctad. *The Business Standard*. https://www.tbsnews.net/economy/348b-2022s-foreign-direct-investments-quadruple-next-year-bida-executive-chairman-663810

- Establish a task force to study and adopt successful reforms from economies like Turkey, Malaysia, and China.
- Create a business facilitation cell at the State Bank of Pakistan for formal interaction between regulatory authorities and the private sector.
- Provide direct access for the private sector to the State Bank for addressing complaints and inquiries about rules and regulations.
- Implement periodic audits of companies by the State Bank to categorize entities based on their foreign exchange practices and risk assumptions.
- Allow firms in Pakistan to repatriate advances for international services after necessary scrutiny.
- Ensure open, transparent, and dependable conditions for all firms, foreign or domestic, including ease of doing business, access to imports, flexible labor markets, and protection of intellectual property rights.

ISSUES

Depletion of Foreign Reserves and Bureaucratic Red Tape

- Over the past two years, and especially in the last 12 months, Pakistan's foreign exchange reserves have reached their lowest point, with several instances where the nation possessed reserves sufficient for only a month's worth of imports. Faced with mounting pressure from opposing political parties and the general population, the government has been striving to exercise prudence concerning the country's foreign exchange reserves. As a result of these economic challenges, the State Bank of Pakistan (SBP) has employed a tacit restriction on the repatriation and outward remittance of profits, dividends, and debt reimbursements to reduce the depletion of the country's reserves even further. In instances where repatriation has been achieved, the process has unfolded at a considerably slow pace, owing to the State Bank's reluctance to expedite proceedings due to the aforementioned economic and foreign exchange issues.
- Investors and companies issuing shares for investment are required to register with the State Bank of Pakistan and with the Securities & Exchange Commission of Pakistan (SECP) to allow for repatriation of profits and dividends. While cross-border payments related to interest, profits, dividends, and royalties do not require prior notification, banks must report loan information to enable the SBP to verify remittances against repayment schedules. Although no formal policy prevents profit repatriation, companies have faced challenges in repatriating profits due to unclear regulations and coordination issues between the SBP, Ministry of Finance, and other government bodies.
- Categories for repatriation of profits include dividends, profit remittances, debt servicing, capital, capital gains, divestment and returns on intellectual property. There are different priorities of clearance allowed by SBP for each category.
- Significant transactions that could impact Pakistan's foreign exchange reserves require approval from the Economic Coordination Committee of the government. Similarly, banks are required to account for foreign currency outflows. Investor remittances must be registered with the SBP within 30 days of execution and must align with a valid contract or agreement. This applies to both inward and outward remittances.
- Most of the larger multinationals that have been here since 1947 are facing issues of repatriation, but have learnt to cope with the volatility, uncertainty, and complexity of the changing economic situation within Pakistan. However, this coping is more a function of their size which allows them to absorb such impact in a far better manner than smaller organizations

to whom delays in profit repatriation can impact operating costs, sustainability and return on investment.

In addition to the tacit restriction on remittances of profits, letters of credit have been disallowed in many cases which has restricted the import of raw materials and has affected the business operations of businesses, apart from blocking profit repatriation. Given a choice between importing raw materials and remitting profits, in an article published by Dawn Newspaper, Pakistan Business Council said their member firms will prioritize the former, given that business continuity is more important for them at this time. However, overseas investors have registered their protest with the SBP and have continually asked them to allow partial remittance of dividends, at least until the economic situation eases. The FEM also has specific categories with caps on the categories that need to be reviewed as currently they restrict the amount that can be repatriated when it comes to capital gain and royalty payments.

Legal Issues: FEM and Foreign Regime Exchange

The laws and regulations outlined in the Foreign Exchange Manual (FEM) and the Companies Act, 2017, deter Foreign Direct Investment (FDI) in Pakistan and create significant hindrances for foreign investors. Here's a comprehensive analysis of how these laws can discourage FDI:

COMPLEX REGULATORY FRAMEWORK:

- The presence of multiple laws, amendments, and regulations, such as the Protection of Economic Reforms Act (PERA), the Foreign Exchange Manual (FEM), and Anti-Money Laundering (AML) Laws, can create a complex regulatory environment. Foreign investors may find it challenging to navigate this intricate legal landscape, leading to uncertainty and potential delays in investment decisions.

- The Foreign Exchange Manual (FEM) presents a highly intricate and multifaceted regulatory framework for foreign exchange transactions. The FEM is a document that is a compilation of various SRO’s. This means that the document is subject to frequent changes. Hence the structure of the FEM lacks consistency and is essentially a fluid document that can change following every notification issued by the SBP, requiring a new updated revision. This has led to a lack of clarity on the final version of the FEM that is applicable. According to a stakeholder that was interviewed, the SBP is also internally unclear at times on what is the most recent updated version of the FEM, because of the frequency of its updates.

- Another major concern is the lack of awareness and understanding among investors regarding the FEM and its clauses. Many individuals and businesses may not be familiar with the regulations, which can create barriers to foreign exchange activities.

- Moreover, the FEM can be complex and challenging to comprehend for non-experts. The FEM's terminology is at times inconsistent, and there is repetition in the regulations. Clearer cross-references and a more streamlined structure could enhance its usability. This complexity may deter smaller businesses and individuals from engaging in foreign exchange transactions, as they often require legal or financial expertise to navigate.
- Furthermore, the complex approvals and procedures related to foreign exchange transactions are contradictory sometimes and time-consuming as they involve different entities on federal and provincial levels. This can discourage foreign investors and create inefficiencies for businesses.

Outdated Guidelines

- The FEM may not always keep pace with rapidly evolving global financial practices and technological advancements. Outdated guidelines can lead to confusion for market participants and may not reflect current market realities.

- Freelancing where inward remittances are primarily involved, are also facing issues because of the lack of clarity around processes and allowances in the FEM. This has led to Pakistan Freelancers Association also voicing their concerns in the wake of the current economic climate. The association is of the view that Pakistan has great freelancing potential and the ability to bring in considerable forex into the country's reserves, however because of unclear and inconsistent policies as well as Pakistan's FATF status, inward remittances are also being treated cautiously.
- The Foreign Exchange Manual does not consider newer models of investment like venture capitalism and private equity as the FEM has been geared towards investors without the consideration that they would want to exit at some point.
- The FEM restricts IT sector exporters from retaining only 35% of their profits in foreign exchange accounts. This limitation prevents startups and IT companies from fully benefiting from their export earnings.

Bureaucratic Approval Processes

- The requirement for investors to submit applications, provide extensive documentation, and go through verification processes involving the State Bank of Pakistan (SBP) and other relevant authorities can lead to significant delays and administrative burdens. These bureaucratic hurdles can discourage potential investors who seek a streamlined and efficient process.

FOREIGN EXCHANGE RESTRICTIONS

- FEM allows the SBP to impose restrictions and limitations on foreign currency transactions, including remittances and profit repatriation. Such restrictions can reduce the flexibility and attractiveness of investment in Pakistan, as investors may fear challenges in repatriating their profits or moving funds in and out of the country.

REPORTING AND COMPLIANCE OBLIGATIONS

- The manual places substantial reporting and compliance obligations on investors. These obligations include providing periodic updates on investment portfolios, changes in ownership, and significant transactions. The strict adherence to these requirements can be cumbersome for foreign investors and may lead to concerns about compliance risks.

EXCHANGE RATE RISKS

- The process of converting foreign currency into the local currency and the associated exchange rate considerations can add an element of risk to foreign investments. Investors may be concerned about the potential impact of currency fluctuations on their returns.

MONITORING AND ENFORCEMENT

- The FEM, AML and FERA all emphasize monitoring and enforcement by relevant authorities. While this is essential for maintaining transparency and compliance, an overly stringent approach could create a perception of intrusive oversight, potentially dissuading investors.

INADEQUATE INVESTOR PROTECTION

- The Companies Act, 2017, and related regulations do not provide robust investor protection mechanisms, leaving investors vulnerable to various risks, including legal disputes and governance issues.

LACK OF FLEXIBILITY

- The legal framework outlined in the FEM and the Companies Act lack the flexibility needed to adapt to changing market conditions or evolving business needs. This rigidity can deter investors who seek adaptable regulatory environments.

While regulations are essential for ensuring transparency and stability in the foreign investment landscape, the complex and bureaucratic nature of the laws outlined in the FEM, FERA, PERA and the Companies Act, 2017, can deter FDI in Pakistan. To attract foreign investors, it may be necessary to streamline and simplify these regulations, provide clearer guidance on tax matters, and enhance investor protection mechanisms.

Policy Inconsistency and Political Instability

- The means to consistently assess the method and process of remittances have not been provided by SBP or the relevant governing authorities.
- Investors, because of inconsistent policies and the lack of a process and method of remittance that is also being implemented, prefer to park their investments in other countries.
- Pakistan’s political instability in recent times does not provide a conducive environment and confidence to prospective investors, who are looking at a long-term view.
- Stability is a critical factor for attracting foreign direct investment. Investors seek predictability in currency values to assess their potential returns accurately. Exchange rate volatility can deter foreign investors. Rapid currency depreciation can erode the value of investments and reduce the attractiveness of Pakistan as an investment destination. Investors may also face difficulties in repatriating profits and dividends in a depreciating currency. It is also one of the main reasons stated as to why investors park their funds in other stable countries and only bring in the bare minimum expenses for their businesses in Pakistan.
- Pakistan's foreign exchange regime does not provide mechanisms to mitigate exchange rate risk, which deter investors. Investors need tools such as forward contracts or hedging options to protect their investments from adverse currency movements.

Lack of Transparency with FER Stakeholders I.E., SBP and Commercial Banks

- In recent times, SBP has shifted the onus of repatriation (for inward and outward remittances) onto banks, whom they name as ‘authorized dealers’ in their documentation.
- Banks however, are also struggling to navigate the process and end up going to SBP for confirmation and approval on various repatriation requests as they do not want to end up approving any requests which SBP may object to in future audits, hence resulting in hefty fines for the banks.
- The SBP has implicitly outlined a zero sum ‘policy’ to banks for ensuring that outward remittances do not exceed inward remittances. Banks, as authorized dealers, have been asked to ‘balance the books’ which has led to them being very cautious about allowing repatriation. Although the process between the banks and the SBP is somewhat opaque, several examples of banks refusing to cater to repatriation requests from investors were quoted during stakeholder consultations held for this activity.

Obsolete FER Policies Unprepared for Investors such as Venture Capital Funds

- Pakistan's Foreign Exchange Regime has failed to evolve and is not ready to cater to newer financial and investment models such as venture capitalism which depend on swift exits after short term investments rather than longer term investments based on return on equity.
- For venture capitalist (VC) funds, acquisition and IPO are the two basic exit strategies of the investment to get the return on investment (ROI). Pakistan's Foreign Exchange Manual however says that investors cannot take back the principal amount, they can only repatriate the profit. This issue also ties into reasons why a VC, once it decides to invest in a startup in Pakistan, always keeps its funds in their home country or a location with more consistent regulations like Singapore, Dubai and Delaware. Any funds required for operations are remitted to Pakistan on a need basis, however the entire investment never makes it to Pakistan in one chunk.
- Issues in repatriation of profits have meant that the startup ecosystem have had to register holding companies abroad in locations such as the ones mentioned above to appease and attract investors. One startup founder explained that this has become somewhat of an unsaid requirement that investors evaluate potential startups on. As this has led to a temporary way around the problem, this issue is not being highlighted or addressed much by P@SHA, which is the primary body for taking up IT related issues with the government. Tech led startups do not have an association of their own, however, most of them are members of P@SHA as the organization has a long-standing relationship with the government and has successfully negotiated policy related issues for the IT sector in the past.

Lack of Transparency

- The manner of remittances is an opaque transaction between the commercial banks and the State Bank of Pakistan.
- The SBP has implicitly outlined a zero sum 'policy' that they expect banks to maintain and ensure such that outward flow of forex does not exceed inward flow of forex.
- This has been a difficult tasks given to banks, and has resulted in complications within the system, as there is still an approval process with the SBP that must be followed, leaving the companies that want to make transactions in the dark.

Startup Concerns

- Startups are the thriving future of Pakistan, however they face a lot of operating difficulties in Pakistan, in particular if they are looking for FDI.
- Startups are required to create off-shore companies and restructure their corporation in a way that they are principally based outside of Pakistan, with the Pakistani company acting as a subsidiary of the foreign company. Various individuals starting their companies do not have the knowledge for such an endeavour.
- The reason for this is investors lack of trust in Pakistan. The investors demand that startups be based in Singapore or Dubai, or any other jurisdiction that does not have the restrictions on remittance of capital or finances as Pakistan does. Nor does it share the abysmal reputation of Pakistan's finance sector and dispute resolution sector.
- This results in startups incurring substantial costs and time delays, even before they have started operations or making money.
- This further erodes Pakistan's trust and places significant hurdles on the incubation and growth of various companies that now have operating costs higher than the rest of the region such as India or Bangladesh and yet, must compete with the same in the global scale.
- Our experts from the startup sectors shared that their concerns are widely unheard and their efforts of brining FDI into Pakistan are not respected. Thus a forum is required for their concerns to be addressed.

SOLUTIONS

Introducing a New Financial Instrument: Forex Credits

- The main solution that came up in discussions with the private sector on what measures can be taken to counteract the issues identified, was the creation of a new financial instrument, which can take the form of 'forex credits'.
- Since the SBP wants to implement a zero-sum game where there is a balance of in-flow and out-flow of foreign exchange, and since many organizations (because of economic and policy related issues) prefer to park their investments in other jurisdictions, hence the logical solution is to create an incentive in the form of a financial instrument backed by policies and regulations for enhancing FDI which could then be used to justify the repatriation of profits.
- The idea is to create policies, develop regulations and provide legal cover for investors so they can bring their investments directly to Pakistan with the incentive that they can repatriate as much as they bring in.
- This new financial instrument can be implemented and regulated by the associations initially and can then evolve into a marketplace where forex credits are traded between investors through the use of blockchain technology. Opening up the trading of forex credits can encourage new avenues of revenue for organizations who have piled up a significant number of credits which they do not need immediately. These credits, once traded, can become valuable assets to organizations that can use them immediately to repatriate profits and placate their investors.
- The associations present during the Roundtable agreed that a pilot project be started within them, by which they can be used to allow members that import forex (USD) into Pakistan to register the same with the association. This information can be recorded on a blockchain to allow modern technology to assist in creating modern solutions, as blockchain will then allow the system to work seamlessly, and limit potential for abuse. The association can then liaise with the State Bank of Pakistan, SECP, FBR and any other regulating authority to allow the creation of redeemable 'tokens' by which the member who has imported forex, can then be allowed to redeem the same and export forex, thus promoting a zero sum game. Thus, this plan was discussed and agreed upon by our members, and the Forex Credits became a viable solution to our existing problem.
- The Forex Credits, whether as blockchain tokens or some other mode that is implemented, can then be part of an exchange under which the market can bid and buy the same from holders of the Credits. The Credits can be implemented with an expiry date by which they must be

redeemed, so that hoarding of Credits can be minimized. Further features can be added as necessary.

- The members of the associations will also thereby be incentivized to register their contributions to the foreign reserves, which will allow the economy to track and monitor such transactions better, and minimize the use of other modes and manners available in the market, that are detrimental to the economy, such as the informal/illegal modes of repatriation.
- The SOPs and manner by which such Credits are registered and created can be a joint exercise with the commercial banks, SBP and other relevant stakeholders with the associations as the focal body in custody of this system, and augmented by the support of these organizations.

Pakistan’s Trust Solution – Outsourcing Trust

- It is evident from the literature and our conversations with the Experts that Pakistan faced a Trust Deficit. The solution to that became the necessity of outsourcing the need for trusting Pakistan, until such time that we have regained the trust.
- In essence, that means relying on another state to act as our guarantor. This can operate through the BITs, or any other state-based mechanism, by which the host country from which investment is coming to Pakistan, can assure and guarantee the funds are safe for the purposes of remitting profits or capital outside Pakistan.
- This can be established using the Forex Credits, the redemption of which can be part of the mechanism that host countries can offer the investors such that the trust relationship is between the investor and his state country, which in turn is indemnified by Pakistan. The states, by virtue of their BITs and dispute resolution processes through ICSID are better positioned to process delays and damages, with Pakistan, rather than individual investors who may not be in a position to leverage the same.
- This system relies on Pakistan’s need for investment. The system is not favorable to Pakistan, yet it is being proposed as the need of the hour, as attracting investment, without providing adequate commitments as to repatriation of the same, is the catch-22 that Pakistan currently suffers from. It is expected that this will be necessary for the foreseeable future by at least 3-7 years.

Creation of Association for Startups

- It became evident during our conversations with various startup entities that they felt underserved and unheard, when arguably they had been working to promote Pakistan’s image and attract millions of foreign investment.

- Thus during the RT, it was recommended by the startup industry that to put forward their interests and needs an association for the same be created. The startup members present had secured investment more than USD 1 million, yet they were not being allowed to repatriate any payments outside of Pakistan, which was creating friction between the startups and their investors.
- Thus the members of the public sector including the Punjab Board of Investment and Trade, recommended that the startups create an association which then puts forth its problems officially so that the public sector can then respond.
- Thus it was clear that our legal experts will assist the startup sector in the creation of their association.
- This will address concerns by startups that are not rooted in IT, such as agriculture, manufacturing, etc.

Streamline the Repatriation Process and Ensure Consistency in Policies and Implementation

- The State Bank of Pakistan should be able to simplify the repatriation process for foreign investors, ensuring transparency and clear guidelines. Fewer bureaucratic hurdles will make repatriation more attractive, encouraging more foreign investments. Capacity building of the financial and legal processes to follow and advisory services on how to bring investment and repatriate through proper channels needs to be made available. Structuring of capital management should also be part of the training and advisory services to companies.

- Existing Bilateral Investment Treaties (BIT) should be augmented with another support system, through which investors from different countries that want to invest in Pakistan, gain confidence about repatriation. This can be done by providing guarantees, preferably by the host country who may enter into an agreement with Pakistan's investment agencies. Thus, the host investment country can be the guarantor for the investments made in Pakistan. Currently the options are starting ICSID arbitrations, which are lengthy, expensive and unavailable to investors. A similar dispute resolution mechanism can be created within such a BIT system.

Update the Foreign Exchange Manual (FEM) and Regulatory Framework

- The FEM needs to be updated, by consolidating all amendments and making it easily understandable, transparent, and accessible to investors and businesses with special emphasis and a revision in the process and clarity of foreign remittance payments and repatriation procedures.
- The Foreign Exchange Manual and existing regulatory framework should also take into account different investment models like venture capitalism and private equity, and should provide adequate processes and means for investors to make exits from investments
- The government should consider taking a liberal approach to issues such as IT exporters only being able to retain 35% of their earnings in foreign exchange accounts. A revision in this policy will encourage exports, which will lead to more earnings and foreign exchange. Uncapping this, will also allow startups to hold their investment in USD within Pakistan and will encourage investors to invest in Pakistan without the fear of losing money due to exchange rate depreciation.
- Liberalizing currency restrictions to allow businesses and investors to freely open foreign currency accounts abroad and conduct transactions in various currencies would enable them to handle their financial needs more efficiently and overcome the limitations of the current system.

Exemptions for VC Firms

- Within the FEM, there is currently a cap on the remittance allowed on capital gains which must be addressed.
- Our members that were heading VC firms recommended that long-term the cap on capital gains must be removed as it is an obsolete measure that cannot persist in the current venture capitalism market.
- In the short-term, the relevant stakeholders such as SBP and SECP, create an option for regulating VC firms similar to how mutual funds are regulated. These regulated VC firms should then be allowed to remit enhancement of capital to their parties outside Pakistan.

Cap on Royalty Payments

- The FEM places a cap on royalty payments, which unfortunately many businesses are unaware of, and also object to, as being arbitrary.
- Awareness sessions and relevant capacity building must be done so that these provisions within the Foreign Exchange Regime are known to the public.
- Followed by consultations with the various franchises that are heavily affected by this law who are thus forced to use alternative means of making their contractual payments, and not be in

breach. Breaching the contractual obligations will result in hefty damages and costs to the company, as well as reduce the creation or import of international brands into Pakistan, that wish to enter into royalty agreements.

Incentives for Investors

- The Punjab Board on Investment and Trade was requested to create incentives for investors such that they can be provided fast-track access to process of repatriating money outside Pakistan.
- Establishing Special Economic Zones dedicated to startups became essential which will include benefits such as simplified repatriation and conflict resolution.
- Allow barter trade and the use of different currencies to facilitate cross-border transactions.

Transparent and Easy Access to Information

- Enhance information access for investors by engaging with bankers, lawyers, and institutions like the Board of Investment, which can provide guidance on regulations and procedures for remittance and investment.
- An online portal can be created that can provide feedback and updates on progress as well as highlight registered lawyers and other experts that can provide support, clarity and advice on procedures for remittance.

Capacity Building

- Various sectors expressed an interest in capacity building of their staff and founders, in the areas of remittance as well as corporate and accounting structuring such that they can minimize their risks of breaching obligations when it comes to remittances or payments to be made outside Pakistan.
- In particular, our experts working in the areas of women-focused businesses expressed that there is a particular gap of information as to FDI and its surrounding parameters so particular focus of training ought to be done.
- Training modules for the manner in which companies should be structured to increase chances of FDI, such as off-shore holdings to enhance investor confidence, should be created and disseminated amongst the chambers and association, with particular attention given to women chambers.

- Training modules on the accounting practices to be adopted and the law relevant to companies interested in FDI, and the complications they will be facing when making any payment outside Pakistan should be created and disseminated.

CONCLUSION

It became clear during our conversations that our experts wants to delve into the practical issues, rather than the purely legal issues. The practical issues being a lack of transparency with the State Bank, as well as lack of consistency in policies. This is aggravavted by the sympathetic position of the SBP, which must exercise capital control over our foreign reserves, and must react according to the volatility in the current market conditions.

Thus it became essential to understand that the problems lies in depleting foreign reserves, and a solution must be generated to address the same. Our experts in various associations shared that they were prepared to take the onus of regulating and managing the outflow of forex, if there was a benefit created for the entities that were importing forex into Pakistan. A common complaint was that while certain businesses, such as our startups, were bringing in FDI into Pakistan, they were restricted from taking out the same money, and someone else in the market was allowed to do so. Thus they clearly pointed out, there is no incentive for a company to bring in FDI into Pakistan, and improve the state of foreign reserves, if they were not allowed to benefit from it. Thus came the birth of forex credits, which is a means of incentivizing companies from bringing in FDI or forex, and improving our state of foreign reserves, while also giving them the option to redeem the same within a certain time period. If a ratio is created and negotiated with the associations, then a net positive result in foreign reserves could also be accomplished under the same system.

Then subsequently if a market for the same is allowed to flourish then the incentive for registering the transactions increases, and a lot of the grey market would shift to the documented economy. The current rise of blockchain based technologies and the various digital tokens and currencies allows this technological option to exist, and Pakistan, should be at the forefront of it.

Other areas, such as the startup associations, the amendments to the FEM are essential for the continued success of Pakistan's ecosystem. The fact that VCs cannot benefit from the capital gains of their investments, as they are hindered from remitting the same abroad is another example of Pakistan's obsolete structure. Our VCs are prepared to undergo the necessary regulatory reforms and requirements to become registered and regulated as any other investment fund, so that they are allowed to repatriate their capital gains to their foreign investors. This is essential for the trust system of Pakistan to grow.

In essence, we learned a lot, and there is undoubtedly a lot more to be uncovered. Our SAZH-TAF Trust System continues to grow, and flourish with new experts and new areas of reforms required to enhance Pakistan's FDI regime such that our country can attain its potential. Our youth is the most energized yet we lost them with our inability to evolve. The loss of our human resource to other countries due to lack of opportunity in Pakistan, was factor particularly shared by various experts, private and public.

The fact that we live in a global village, and must compete with the rest of the world for resources, manpower, intellect and finances, should readjust our thinking, and allow us to innovate beyond the traditional pale.

We hope that this effort of ours helps in steering Pakistan to a destination that can allow us to not make short-term decisions based on our foreign reserves, while strengthening our financial position. We have our neighbours to thank for the inspiration that it is possible. We just need to implement, and be consistent about it. We look forward to your feedback and hope to bring you further details of our work in various other ambits as well. Thank you all for your support.

SHussain

SYED AKBAR HUSSAIN
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SOURCES

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- Syed Asim Zafar – Former Chairman – *Lahore Stock Exchange*
- Syed Hassan Ali – Principal Investor – *Karandaaz Pakistan*
- Umair Rafiq – Chairman – *Pakistan Electronic Fan Manufacturers Association*
- Usman Ashraf – CEO – *Hardees Pakistan*
- Yousaf Rizvi – Vice-Chairman – *Travel Agents Association of Pakistan*
- Zafar Mehmood – Senior Vice-President – *Lahore Chamber of Commerce*

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