
Investment and Services

Pakistan now ranks, along with India and China, among the fastest growing economies in Asia, with a growth rate of more than 6 percent annually. However, despite Pakistan's impressive growth, foreign direct investment (FDI) is well below levels attracted by countries with similar high growth records. A US-Pakistan FTA could address some concerns of foreign investors and lead to higher inflows.

This chapter addresses questions relating to direct and portfolio investment as well as the services sector, and highlights connections between service and investment issues. After exploring some of the characteristics of FDI in both Pakistan and the United States, areas of FDI friction will be identified. An overview of current international investment agreements between the two countries comes next, followed by an analysis of portfolio investment and remittances to Pakistan. The chapter then turns to the service sectors of both countries, and concludes with observations about the treatment of services and investment in other FTAs as well as recommendations for these areas in the context of a possible US-Pakistan FTA.

FDI Overview and Main Characteristics

Pakistan's total inward FDI stock grew from about 3 percent of the country's GDP in 1980 to about 11 percent (approximately \$10 billion) by 2003. In other words, inward investment became more important to the

economy over the two-decade period (UNCTAD 2004).¹ Inward FDI flows in recent years (1998–2003) have on average accounted for about 8 percent of gross fixed capital formation in Pakistan.²

However, Pakistan's outward FDI stock remains below 1 percent of GDP, despite an increasingly liberal approach to capital outflows. This is well below the 14 percent of GDP represented by the outward FDI stock of all developing countries (UNCTAD 2004).

Table 7.1 presents an overview of inward FDI stocks in Pakistan by country of origin since 2000. These estimates differ somewhat from parallel figures from other sources because the underlying calculations require some guesswork: The Pakistani government does not compile stock estimates of FDI, and so the figures in table 7.1 are assembled from indirect sources. Nonetheless, these estimates suggest that, in 2004, US firms were responsible for about 37 percent of the total FDI stock in Pakistan. In order of their importance, other source countries include the United Kingdom with 20 percent, the United Arab Emirates with 8 percent, followed by Saudi Arabia and Japan.

The figures in table 7.1 indicate fairly modest growth in Pakistan's inward FDI stock in recent years. Various explanations can be offered: inadequate infrastructure, political instability coupled with law and order difficulties, and unresolved disputes between foreign investors and the Pakistani government. Moreover, Pakistan's Board of Investment has been criticized for its weak leadership.³

Sectoral and Company Perspective

Table 7.2 offers a perspective on the sectoral breakdown of FDI stocks in Pakistan. Foreign investment is concentrated in relatively few sectors, the largest of which is mining, quarrying, and oil exploration, accounting for 25 percent of the total in 2004. Next in line comes the transportation, storage, and communications sector with a 15 percent share, followed by the power sector with 14 percent. Other important sectors include the combined chemical, pharmaceutical, and fertilizer industries with 10 percent, and financial services with about 9 percent.

1. Nonetheless, while the ratio of FDI to GDP is higher than for most of South Asia, with the exception of Sri Lanka, it is well below the average for other developing Asian or Latin American countries. According to UNCTAD (2004), inward FDI stocks represented 28 percent of the GDP of all developing economies in 2004.

2. Focusing on percentages ignores the fact that gross fixed capital formation in Pakistan (at around 17 percent of GDP) is lower than in many developing countries, particularly those that have grown rapidly for a decade or longer.

3. This viewpoint is drawn from research conducted by the US Commercial Service in an article titled "Pakistan Investment Climate Statement," available at www.buyusa.gov.

Table 7.1 Inward FDI stock in Pakistan by source country, 2004

Country	Percentage share
United States	37
United Kingdom	20
United Arab Emirates	8
Saudi Arabia	5
Japan	4
Germany	2
Netherlands	2
Hong Kong	1
Korea	1
France	0
Canada	0
Italy	0
Others	21
Total stock (millions of dollars)	7,596

Note: Calculated based on yearly UNCTAD stock totals and an average of flows between 1997 and 2004, as provided by the Pakistan Board of Investment. The flow figures do not include reinvested earnings, which lead to an understatement of FDI stocks.

Source: UNCTAD 2005 Country Fact Sheet for Pakistan, Pakistan Board of Investment, www.pakboi.gov.pk.

Table 7.3 provides a sectoral breakdown of FDI stocks held by US firms located abroad. Parallel figures are not available for FDI in Pakistan; however, from table 7.3 it is clear that US FDI abroad spans a wide range of sectors, with manufacturing and finance among the largest, accounting for shares of 21 and 18 percent respectively.

The most significant sectors for US investors in Pakistan appear to be transportation, storage, and communications, mostly telecommunications and information technology. Following the example set by India, Pakistan's current efforts to build up its human resources should lead to further foreign investment in its information technology sector. Oil and gas exploration, chemicals, pharmaceuticals, and fertilizers are other sectors with US investment.

**Table 7.2 Inward FDI stock in Pakistan
by industry, 2004**

Industry	Percentage share
Mining and quarrying, oil exploration	25
Transport, storage, and communications	15
Power	14
Chemicals, pharmaceuticals, and fertilizer	10
Financial business	9
Food, beverages, and tobacco	4
Trade	4
Construction	3
Petrochemicals and refining	3
Textiles	3
Electronics	1
Electrical machinery	1
Machinery other than electrical	0
Other	9
Total stock (millions of dollars)	7,596

Note: Calculated based on yearly UNCTAD stock totals and an average of flows between 1997 and 2004, as provided by the Pakistan Board of Investment. The flow figures do not include reinvested earnings, which led to an understatement of FDI stocks.

Source: UNCTAD 2005 Country Fact Sheet for Pakistan, Pakistan Board of Investment, www.pakboi.gov.pk.

The Pakistan Board of Investment identified 15 major companies that attracted some of the largest FDI inflows from the United States in 2003–04. Three of the largest companies are in the oil and gas exploration sector. Other significant sectors include petroleum refining, telecommunications, and pharmaceuticals.

Areas of FDI Friction

Since the 1980s, Pakistan aimed to attract foreign investors through the establishment of Export Processing Zones Authority (for details, see www.pakboi.gov.pk). In fact, a major new port with export processing facilities is currently under construction at Gwadar, near the Iranian border (for details, see www.gwadarnews.com). While successful governance of

Table 7.3 US FDI stock abroad by industry, 2004

Industry	Billions of US dollars	Percent of total FDI
Manufacturing	428.2	21
Finance (except banks) and insurance	371.0	18
Wholesale trade	136.9	7
Mining	101.4	5
Depository institutions (banks)	68.1	3
Information	56.4	3
Professional, scientific, and technical services	42.1	2
Utilities	18.9	1
Other industries ^a	841.0	40
Total all industries	2,064.0	100

n.a. = not available

a. Holding companies (except banks) accounted for 84 percent of the “other industries” share to the world.

Note: Data are on a historical-cost basis, year-end 2004.

Source: BEA (2005).

these export processing zones can significantly improve investment ties between the United States and Pakistan, other aspects of FDI cause friction. A US-Pakistan FTA provides a unique opportunity to deal with some long-standing concerns with the Pakistani business environment. We review topics that will attract the attention of negotiators.

Impediments to Competition

In Pakistan, the Monopolies and Restrictive Trade Practices Ordinance is enforced by the Monopoly Control Authority. However, state-owned firms are exempt from the ordinance; consequently, competition policy and foreign investment do not reach important sectors of the economy. Major examples of such exempt businesses include the state-owned Water and Power Development Authority and the Karachi Electric Supply Corporation. In the telecom sector, Pakistan Telecommunication Company Limited maintains exclusive control over land lines and switching (though other aspects of telecommunications have been deregulated). In the airline industry, the dominant carrier is the state-owned Pakistan International Airlines, though two private airlines also provide service.

Cartels also feature in the economy's cement and sugar industries, which are further buttressed by high import duties.⁴

Foreign Ownership Restrictions

Foreign investors, welcomed by the Foreign Private Investment (Promotion and Protection) Act of 1976 and the Economic Reforms Act of 1992, can establish and acquire business enterprises in nearly all sectors of the Pakistani economy.⁵ License requirements have generally been abolished, except for petroleum-related ventures. The government's investment policy promises full repatriation of original capital, capital gains, dividends, and other profits—upon the approval of the State Bank of Pakistan. There are no restrictions on technology transfers into or out of the country. Pakistani law protects against expropriation, for example by ensuring compensation in the case of a public taking.

Tax Incentives

Pakistan grants significant tax and duty incentives to two categories of industries: "priority industries" (including tourism, housing, and construction) and "value-added export industries" (manufactured goods such as garments, bed linens, surgical instruments, and sporting goods).⁶ For priority industries, the government has repealed minimum equity investment and national ownership requirements; it has also reduced the maximum customs duty from 25 to 10 percent on imported plant machinery and equipment. Value-added export industries enjoy even better incentives: zero duties on imported plant, machinery, and equipment, and a 50 percent first-year depreciation allowance. In return, Pakistan imposes export performance requirements on all industries that receive these incentives. Such obligations might, for example, require the export of 50 percent of production during the first 10 years of operation.

Pakistan is considering tax simplification by consolidating approximately 20 federal taxes into three major categories: sales tax, income tax, and customs duties. At the provincial level, the number of taxes has already been reduced from 29 to 8. Consolidation has clear advantages for taxpayers and the government, through both simplification and a reduction in the number of potential corruption encounters.

4. In the retail food sector, the government has a voice in the pricing of essential foodstuffs. For further information, see www.jang.com.pk.

5. There are four restricted areas: arms and munitions, high explosives, currency/mint operations, and radioactive substances.

6. Tax relief has also been provided for modernizing and replacing equipment in existing industries.

Pakistan's Central Board of Revenue is being restructured to improve tax administration. In addition, a universal self-assessment system was recently introduced, whereby returns submitted by taxpayers are provisionally accepted as settlement of their tax liabilities. Audits are focused on a random sample of returns.

The United States has expressed concern over the discriminatory application of internal sales taxes in the pharmaceutical industry. Imported raw materials used to make pharmaceuticals are taxed at 15 percent, while identical raw materials produced domestically are exempt from taxation. Another US tax issue is the very high tax rate of 30 percent on motion picture royalties paid for US films shown in Pakistani theaters.

Pakistan has signed treaties for the avoidance of double taxation with more than 52 countries, including the United States. However, the US-Pakistan treaty provides very little tax relief from statutory withholding rates (30 percent) on international income flows, apart from FDI earnings. Thus, the bilateral US-Pakistan withholding tax rates for interest and most royalties (including film royalties) are 30 percent in both directions. However, the rate for FDI dividends paid by a subsidiary firm to its parent (which owns more than 50 percent of the voting stock) is capped at 15 percent.⁷

Corruption

The International Monetary Fund (IMF) recently singled out corruption as the major obstacle in boosting foreign investment in Pakistan. Both domestic and foreign business firms face significant problems relating to the "enforcement of contracts, financial obligations, bankruptcy law, and the interpretation of tax laws. [The Pakistani government now appears to be] focusing on accountability, and is liberalizing policies and privatizing state entities to attract investment and boost the national economy."⁸

Pakistan's National Accountability Bureau, the Federal Investigation Agency, and the Provincial Anti-Corruption Departments, along with federal and provincial ombudsmen, are all responsible for combating corruption. Nevertheless, corruption remains widespread in government procurement, the awarding of international contracts, and tax administration. Speculative estimates suggest that 30 percent of the original costs of some projects may end up illicitly benefiting contractors and officials in the form of kickbacks and commissions.⁹ As one step toward correcting

7. Derived from PricewaterhouseCoopers' *Worldwide Summaries on Corporate Taxes 2004-2005*, 901.

8. Viewpoint in "IMF Sees Hurdles in Investment in Pakistan," Islamic Republic News Agency, August 10, 2005.

9. This statement is based on research conducted by the US Commercial Service in an article titled "Pakistan Investment Climate Statement," available at www.buyusa.gov.

such problems, in June 2000 the Musharraf government fired some 1,000 officials in the Central Board of Revenue on charges of corruption and inefficiency.¹⁰

International Investments, Agreements, and Remittances

The United States and Pakistan signed a trade and investment framework agreement (TIFA) in 2003. The TIFA creates a joint council for considering a wide range of commercial issues and sets out basic principles that underpin bilateral trade and investment relationships.¹¹ The government of Pakistan has also substantially complied with its commitments concerning local content rules under the WTO Agreement on Trade-Related Investment Measures. In addition, a bilateral investment treaty (BIT) has been discussed but not yet agreed, although the conclusion of a BIT would be a logical companion to a US-Pakistan FTA.¹²

The United States has ratified BITs with some 39 countries worldwide. These provide protection for thousands of US-owned businesses and their US investors as well as for investors from the partner country. BITs ratified by the United States reflect international law standards and require prompt, adequate, and effective compensation if a country expropriates an investment made by the citizens of the partner country. BITs ensure that an investor may repatriate profits and capital, and they provide investors with the right to seek binding international arbitration of claims.¹³ Responsibility for BIT policy and negotiations is shared between the US Trade Representative (USTR) and the Department of State, after which each BIT requires Senate approval before entering into force.

Pakistan has signed its own bilateral agreements for the promotion and protection of investment with 46 countries, including China, France, Germany, Iran, Japan, the Netherlands, Switzerland, the United Arab Emirates, and the United Kingdom, all of which include dispute settlement procedures. If a dispute cannot be settled informally, investors can

10. The cases involved misappropriation of government funds, money laundering, fraud committed in the purchase of project equipment, award of large projects and services contracts in violation of prescribed rules and regulations, sale of government lands at giveaway prices, allotment of residential lands to favorites, and failure to repay huge loans from nationalized commercial banks and financial institutions.

11. A draft for a Business Development Forum was prepared in 1996 to facilitate business development between both countries. However, this project remains on the drawing board.

12. In January 2006 the United States and Pakistan concluded a fourth round of talks on the BIT proposal. Details are available at www.bilaterals.org.

13. Details are available at the US State Department's Web site, www.state.gov.

take the case to a court in the host country, or to an ad hoc arbitration panel established under the UN Commission on International Trade Law, the International Center for Settlement of Investment Disputes, or the Court of Arbitration of the International Chamber of Commerce.¹⁴

In ongoing BIT negotiations between the United States and Pakistan, progress has been impeded by disagreements over intellectual property rights and specific dispute resolution clauses.¹⁵ The differences are fairly technical, and may be resolved in the course of further talks.

Portfolio Investment

The index of share prices in Pakistan for September 2005, as reported by the IMF, stood at 292, well over twice the level reported in 2000 (IMF's *International Financial Statistics 2005*, 42). The robust stock market underlines the attractiveness of Pakistan's portfolio investment environment. In recent years the country's equity market has grown tremendously, both institutionally and in size—whether measured in terms of number of companies listed or market capitalization. The market capital value of listed equity shares recently set a new all-time record of Rs. 2.9 trillion, almost \$50 billion (for further information, see www.dawn.com). According to the US State Department's 2005 report on Pakistan's investment climate, Pakistan's equity markets are among the world's best performing over the past three years, even if they remain relatively small and illiquid by global standards.¹⁶ Of the three stock exchanges in Pakistan—Karachi, Lahore, and Islamabad—Karachi is the dominant exchange. It lists approximately 780 companies, and trading volume increased from around 1 million shares a day in 1990 to approximately 50 million shares a day in 2004.¹⁷

14. One recent case is a dispute regarding a contract between Pakistan International Airlines (PIA) and a US company to centralize PIA's reservation system. The new managing director of PIA accused the US company of irregularities and kickbacks. In an effort to restore the contract, negotiations ensued between the US company, PIA, and the Pakistani government. These negotiations are currently ongoing. For more information see www.buyusa.gov/pakistan.

15. The intellectual property rights (IPR) questions are raised in an article titled "BIT with US: Pakistan Opposes Inclusion of IPR," available at www.bilaterals.org. Dispute resolution is covered in an article titled "Pakistan-US Differences over BIT Persist," available at www.bilaterals.org.

16. For more information on the equity market, see *2005 Investment Climate Statement—Pakistan*, available at www.state.gov. In 1997 the Asian Development Bank provided Pakistan with a loan of \$250 million for the purpose of developing the share markets. Evidently, this loan was used to good advantage.

17. The Karachi Stock Exchange has posted some of the "highest returns within the global emerging market universe over the past four years" (Shehryar Ahmad, "Karachi Stock Exchange Showcases a Booming Pakistani Equity Market," *DinarStandard*, October 20, 2005, www.dinarstandard.com).

The Securities and Exchange Commission of Pakistan and the Registrar of Companies share responsibility for public regulation of the securities markets. The regulatory authority of these bodies derives from the Securities and Exchange Ordinance of 1969, the Securities and Exchange Rules of 1981, and the Companies Ordinance of 1984. Pakistan's Securities and Exchange Commission recently launched reforms to check possible insider trading and market manipulation by big brokerage houses.¹⁸

In a major move to attract foreign portfolio investment, the government announced a new set of policies in 2000.¹⁹ The policy package includes a capital gains tax exemption, an exemption of "bonus shares" from income tax,²⁰ the exemption of foreigners from withholding tax on certain interest payments, and a repeal of the turnover tax on sale of shares.²¹

Remittances by Pakistani Expatriates

Pakistan attracts significant remittances of foreign exchange from its expatriate citizens. According to the World Bank, remittances are now the second largest source of external finance for developing countries, after FDI (World Bank 2005). Foreign residents of the United States—the largest national source of workers' remittances to developing countries—paid global remittances of over \$34 billion in 2003. As reported by the World Bank, these remittances tend to be stable and may directly benefit the poor.²² Pakistan's remittances reached \$4 billion in 2003, placing it fifth among remittance-receiving countries from all sources (the top four are India, Mexico, the Philippines, and China). Recent growth in recorded remittances can be partially explained by the fact that, since September 11, 2001, money has shifted away from informal (and unrecorded) money transfer systems to regular banks and wire services.

18. See "Police Guard Pakistan Stock Exchange," *Aljazeera*, March 25, 2005.

19. Further information can be found at www.buyusa.gov/pakistan.

20. "Bonus shares" are stock dividends that are paid in shares.

21. Pakistan's market for bonds and other fixed income securities has not developed as quickly. At around 14 percent of GDP, Pakistan's savings rate is the lowest among developing Asian economies, and this may contribute to the slow development of the bond market.

22. Living standards may improve, for example, when remittances finance better health care, nutrition, housing, and education. See the World Bank's feature article, "When Money Really Matters—Remittances Vital to South Asia," July 19, 2005, available at www.worldbank.org.pk.

Services

US Services and Trade Barriers

The United States is the premier producer and exporter of services, with its service sector constituting about 64 percent of GDP and about 30 percent of total US exports (BEA 2005). The main service exports are business, professional, and technical services, travel services, royalties and license fees, and financial services. The United States has the largest insurance market in the world, and its telecommunications market also is highly competitive, with mobile, fixed line, and cable services as well as voice over Internet protocol.

Although barriers to foreign entry prevail in several US service sectors—finance, telecommunications, transportation, and professional services—the USTR has affirmed US intentions to further liberalize these activities.

Key Pakistani Service Sectors and Barriers

Foreign investment in services is generally allowed in Pakistan, subject to a minimum initial capital stake (now \$150,000, compared with a previous minimum of \$300,000).²³ Policy reforms enacted in 2004 enable foreign investors to hold a 100 percent equity stake in service ventures, and permit repatriation of 100 percent of profits (the previous limit was 60 percent). With some limitations, foreign investors in the service sectors may remit technical fees and royalties. Table 7.4 indicates the share of each service sector in Pakistan's GDP.

Telecommunications

Pakistan recently deregulated the telecommunications sector in order to comply with WTO commitments, ending the exclusive right of the state-controlled Pakistan Telecommunication Company Limited to provide basic telephone services. The government has subsequently issued 12 licenses to long distance telephone companies, 90 licenses to local loop regional telephone companies, and 70 licenses to wireless local loop companies. The *2005 Asian Development Outlook* forecasts fast expansion of Pakistan's telecom sector as the new firms launch their operations.

23. Investors in information technology services are not subject to the requirement of a minimum initial investment and may hold a 100 percent equity stake.

Table 7.4 Service sectors in Pakistan, 2004–05

Sector	Share in GDP (percent)
Wholesale and retail trade	19.1
Transport, storage, and communications	11.1
Services	9.6
Public administration and defense	6.0
Finance and insurance	3.7
Ownership of dwellings	2.9
Total	52.4

Source: Government of Pakistan (2005a).

Finance and Insurance

After the WTO Financial Services Agreement was signed in 1997, the government of Pakistan granted new rights to foreign banks and foreign securities firms, and the State Bank of Pakistan eliminated restrictions on the number of branches for foreign banks.²⁴ Liabilities to foreign holders, deposited in Pakistani banks, reached \$475 million in September 2005. These deposits by foreign holders (mainly banks) reflect a degree of international activity.

As another financial sector reform, Pakistan opened the insurance market. Foreign investors are now entitled to hold a 51 percent equity share of companies operating in the life and general insurance sectors. As a condition of operation, they are required to bring in a minimum of \$2 million in foreign capital and raise an equal amount of equity in the local market. Pakistan does not regulate insurance premiums; however, the government issued a new insurance law in 2000 that raised capital adequacy standards and enhanced policyholder protections.

Despite liberalization, market domination in the insurance sector may create a substantial barrier to entry. The state-owned State Life Insurance Company writes over 80 percent of Pakistan's life insurance policies, and five companies account for 78 percent of the general insurance market. The government of Pakistan permits only the National Insurance Company to insure public-sector firms, while private-sector firms are obliged to use the state-owned Pakistan Reinsurance Company for at least 10 percent of their reinsurance requirements.

24. Both foreign and local banks must submit an annual branch expansion plan to the State Bank of Pakistan for approval. Foreign brokers, like their Pakistani counterparts, must register with the Securities and Exchange Commission of Pakistan.

Other Services

In the professional service sector, foreign professionals can offer legal and engineering consultancy services with 100 percent equity participation (previous regulations required that Pakistanis hold 40 percent of the equity for five years). Minimal capital requirements for professional services have been reduced from \$300,000 to \$150,000 since the 2004 reforms. Today it is no longer necessary for a legal consultant to be licensed in order to offer legal advice in Pakistan. However, foreign lawyers cannot appear in court or formally litigate cases unless they are licensed in Pakistan. The Islamabad-based Pakistan Bar Council licenses attorneys in Pakistan, with no legal impediments to the admission of foreign lawyers. Likewise, foreign doctors must register with the Pakistan Medical and Dental Council, and foreign engineers with the Pakistan Engineering Council, in order to practice their professions.

With respect to entertainment services, the government of Pakistan prohibits the importation of all films that are considered inconsistent with local religious and cultural standards.

Recommendations

In addition to the factors discussed in this chapter, the US FTAs with both Chile and Singapore provide valuable insights on how to approach a US-Pakistan FTA for investment and service sector liberalization. In the US-Chile FTA, specific measures were aimed at both tax reform and improved governance, with the result that, in the case of telecommunications services, Chile has achieved a high degree of market competitiveness and openness. In its index of foreign restrictiveness as of May 2005, Chile was only 0.09 for telecommunications services (a lower value means a more open sector). By comparison, Singapore's score was 0.44 and Pakistan's 0.55 for comparable telecommunications services.²⁵ The US-Singapore FTA achieved significant liberalization with respect to professional services; box 7.1 provides a summary of the service sector provisions in this FTA.

The development of investment and service sector exchanges between Pakistan and the United States holds much potential. While friction levels are generally low with respect to investment in Pakistan, improving the confidence of foreign investors remains a paramount objective. The conditions described above suggest several possible recommendations.

25. For more information, see the Findlay and Warren Restrictiveness Index on Trade in Services, available at www.pc.gov.au.

Box 7.1 Selected provisions relating to services in the US-Singapore FTA

Item	Provision
Scope of measures	Measures by central, regional, or local government affecting cross-border trade in services (negative list).
Schedules	Annex 8A (measures) and 8B (sectors) list scheduled exceptions to national treatment and most favored nation (MFN) treatment; market access; local presence; performance requirements; or senior management and boards of directors.
Market access	Applies to all sectors unless otherwise specified in the agreement. Removes limitations on the number of services providers; the value of services transactions; the quantity of services output; the number of persons that may be employed in a particular sector; and measures which restrict or require specific types of legal entity or joint venture.
Most favored nation treatment	Unconditional MFN treatment in like circumstances.
National treatment	National treatment, unless otherwise specified in Annexes 8A and 8B.
Local presence	A Party shall not require a service supplier of the other Party to establish or maintain a representative office or any form of enterprise, or to be resident, in its territory as a condition for the cross-border supply of a service.
Domestic regulations	Measures relating to qualification and licence requirements should be based on objective and transparent criteria, not more burdensome than necessary to ensure the quality of the service, and should not themselves restrict the provision of the service.
Transparency measures	Mandates publication of laws, regulations, procedures, and administrative rulings affecting trade in services, or the reason for failure to comply with these mandates.
Entry of business persons	Secures temporary access for business visitors and investors for up to 90 days. Also grants, not subject to labor market tests, 5,400 US work visas for different categories of Singaporean professionals. This concession was reciprocated by Singapore.
Full set of provisions on services	Chapter 8 Trade in Services Chapter 9 Telecommunications Chapter 10 Financial Services Chapter 11 Temporary Entry of Business Persons Annexes to chapters 8, 10, and 11.

Sources: USTR (2003b); MTI (2003).

Investment

- Our first recommendation is to conclude the US-Pakistan BIT both for its symbolic value as a seal of “good investment practices” and for its specific provisions. The treaty would enhance the legal certainty for US-owned firms that choose to do business in Pakistan.
- As part of the BIT text, or as a separate codicil, treaty benefits should be denied to an investor (or investee) that engages in significant corrupt practices. This provision will put foreign firms on notice that, if they corruptly procure license rights or other benefits, they stand to lose the protection afforded by the bilateral investment treaty.
- Pakistan and the United States should renegotiate their bilateral income tax treaty, so as to reduce sharply the withholding rates on dividends, interest, and royalties (including film royalties). Pakistan should also consider a program of 10-year tax holidays in its export processing zones. Both measures could encourage inward foreign investment. However, special tax benefits should be subject to revocation in the event of significant corruption on the part of the foreign investor.
- Taxes on imported and domestically produced raw materials should be enforced at the same rate in order to avoid discrimination. Either comparable taxes should be collected on domestically produced raw materials, or taxes on imported materials should be abandoned.
- Increased competition would be desirable for state-owned firms that are exempt from the Monopolies and Restrictive Trade Practices Ordinance, such as the Water and Power Development Authority, Karachi Electric Supply Corporation, and Pakistan International Airlines. Competition could be created by privatizing all or parts of these companies and allowing foreign companies to bid for the assets.

Services

- Pakistan should consider privatizing the State Life Insurance Company, and allow US and other foreign firms to compete in the bidding. Pakistan should also review competitive conditions in the insurance market and allow foreign firms to write insurance and reinsurance policies on a comparable basis as incumbent domestic companies, and permit access to public-sector insurance markets.
- The US FTAs with Chile and Singapore can serve as models for a US-Pakistan FTA. In the case of Singapore, reciprocal provisions cover a wide range of service activities. For example, the agreement removed all limitations on the number of service providers, the value of service transactions, the quantity of services output, and the number of persons that may be employed per sector.