

# EXPORT PROMOTION THROUGH BRANDING & OVERSEAS PRESENCE

APRIL 2020

## **Export Promotion through Branding and Overseas Presence**

**Pakistan's exports have been evolving from commodities to value-added products but this process needs to be accelerated to maximize export earnings. The difference from moving from commodities to value-added goods, besides export value, is the number of jobs created in the country. Generating employment and avoiding recurring imbalances in Pakistan's external account are two major objectives of the Pakistan Business Council's "Make-in-Pakistan" theme.**

**Building further on the potential of maximizing export earnings, this proposal addresses the opportunity of using Pakistan owned brands and other marketing and distribution assets and initiatives. Brands fetch a premium. Yet there is no Pakistan-owned brand in international markets other than some Food brands targeted at the diaspora. Even these are sold mainly through ethnic shops and not through mainstream retail chains. The latter only carry established brands and demand a listing fee, with just-in-time deliveries. Use of distributors is not always productive.**

**As consumers move from high street to on-line shopping, it is vital that Pakistani branded and other exports are made available on platforms such as Amazon. This entails warehousing in the markets where such platforms are located so that shipments can be affected to shoppers within 24-48 hours.**

**Pakistan's export rules were designed for commodities and need to be modernized to address the present day realities. This paper identifies some key issues and proposes the way forward. PBC members account for 40% of the country's exports and seven out of top ten exporters belong to the PBC. With the downturn in demand and disruption in distribution post-Covid, there will be opportunities to acquire brands and strengthen the distribution presence, especially on on-line platforms. Regulatory agility is therefore called for to facilitate acquisition of and development of brands and regulations that permit overseas warehousing and deferred export realization. PBC has, where possible, identified safeguards to prevent the misuse of a more liberal and empowering export policy. It is working with the State Bank and the Ministry of Commerce to take these forward.**

## Proposals to Promote Exports through Branding and Overseas Presence

ISSUES	PRESENT POSITION	PROPOSALS
<p><b>1 Acquisition of Overseas Assets</b> Allow exporters to acquire prescribed tangible and intangible assets abroad to accelerate the growth of exports.</p> <p>Prescribed overseas assets to include:</p> <ul style="list-style-type: none"> <li>• brands and other intangible assets</li> <li>• production, processing, warehousing and logistics assets</li> <li>• investment in overseas companies engaged in similar business as the exporter</li> </ul>	<ul style="list-style-type: none"> <li>• Exporters are presently allowed to retain 10% of their export earnings and to spend this as they deem fit for market development.</li> <li>• However, if they wish to acquire capital assets to strengthen and sustain their exports, they are required to seek prior permission from:               <ul style="list-style-type: none"> <li>○ the SBP for investment of up to US\$5 Mn and</li> <li>○ the ECC for larger investment.</li> </ul> </li> <li>• Permissions take a long time.</li> <li>• It is illogical to control investment in capital assets which can potentially produce a steady stream of future income, yet allow equally large amounts of foreign exchange to be spent in non-capital creating activities. Both are necessary, depending on the nature of the category and the export markets.</li> <li>• Additionally, exporters with sufficient balance in the retention accounts should not be required to seek time consuming permissions.</li> <li>• Where investment in capital assets is not fully met from available balance in the exporter's retention account, a simplified and fast track authorization process is desirable.</li> </ul>	<ul style="list-style-type: none"> <li>• No prior permission should be required from either the SBP or the ECC, if the sum to be invested in acquiring capital assets is fully funded from the accumulated market development retention balance available to the exporter. Banks should be permitted to remit the sums so requested. Exporters availing this facility will maintain normal books of accounts and comply with taxation and other rules applicable, both in and outside Pakistan.</li> </ul> <p><i>Example:</i>  <i>Annual Exports \$300 Mn;</i>  <i>Retention Allowance \$30 Mn;</i>  <i>Investment desired: \$10 Mn;</i>  <i>No need to obtain prior permission from any authority</i></p> <ul style="list-style-type: none"> <li>• Where the intended overseas investment exceeds the accumulated balance available to the exporter in the retention account and the exporter has in the previous three years exported goods or services of at least US\$ 10 Mn per annum, prior permission would be required as follows:               <ul style="list-style-type: none"> <li>○ From the SBP, if the shortfall between the investment and the balance available to the exporter in the retention account does not exceed US\$ 5 Mn. Such permission may be sought direct from the SBP without involving an authorized</li> </ul> </li> </ul>

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		<p>dealer. The SBP should revert with a “Go/No Go” decision within 10 working days.</p> <ul style="list-style-type: none"> <li>○ From the ECC, where the shortfall between the investment and the sum available in the retention account exceeds US\$ 5 Mn.</li> </ul> <p><i>Example One:</i>  <i>Annual Exports \$40 mn</i>  <i>Retention Allowance \$4 Mn</i>  <i>Investment desired \$4.5 Mn</i>  <i>Permission required from the SBP</i></p> <p><i>Example Two:</i>  <i>Annual Exports \$80 Mn</i>  <i>Retention Allowance: \$8 Mn</i>  <i>Intended investment \$9 Mn</i>  <i>Permission required from the SBP</i></p> <p><i>Example Three:</i>  <i>Annual Exports \$30 MN</i>  <i>Retention Allowance \$3 Mn</i>  <i>Intended investment \$ 9 Mn</i>  <i>Permission required from the ECC</i></p>

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<p><b>2 Building Brands Abroad</b></p> <p>Most of Pakistan’s exports are either commodities or goods sold to foreign brand owners who are able to charge premium prices. It is desirable for exporters to develop brands.</p>	<p>Strong brands are able to command premium prices. Brand-led exports will maximize the country’s foreign exchange earnings.</p> <p>Exporters are presently permitted to retain and utilize 10% of annual export earnings for market development. Proper brand building entails investment beyond this 10% allowance and involves the following key tasks:</p> <ul style="list-style-type: none"> <li>• Market research</li> <li>• Supermarket listing fee</li> <li>• Supermarket shelf rental costs</li> <li>• Advertising and promotion costs</li> <li>• Hiring a sales force and running an overseas office</li> <li>• Warehousing and logistics expenses</li> <li>• Product spoilage and bad debts</li> </ul> <p>Exporters of strong brands willing to invest more than 10% of annual exports in brand building and sales development may be permitted to this within a framework which balances ambition with risks.</p>	<p>Pakistani brand exporters desirous of investing more than 10% of the annual exports to establish and entrench their share abroad would be required to present their proposals to obtain permission from the State Bank of Pakistan.</p> <p>The proposal should outline the expected benefits over a three-year period. SBP will use the following guidelines for evaluating such proposals:</p> <ul style="list-style-type: none"> <li>• The brands covered must have audited annual sales of an average of PKR500 Mn in Pakistan over the three most recent full years. They should have achieved an average annual growth of 10% pa over three years, of which at least a third should have been derived from volume growth. The brand owners must possess or have access to professional marketing and sales expertise suitable for the categories and the markets intended to be developed.</li> <li>• The proposal should address all key components of brand development and outline the sales plan and projections for three years in each of the markets abroad. It should explain why the plan would be</li> </ul>

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		<p>successful and itemize the outlay, both in amount and as % of projected sales.</p> <ul style="list-style-type: none"> <li>The SBP may allow remittance for market development as follows:</li> </ul> <table border="1" data-bbox="1440 355 1984 612"> <thead> <tr> <th data-bbox="1440 355 1585 501" rowspan="2">Brands in Export Markets</th> <th colspan="3" data-bbox="1585 355 1984 427">% of Projected Sales Allowed for Brand Building</th> </tr> <tr> <th data-bbox="1585 427 1715 501">Yr 1</th> <th data-bbox="1715 427 1845 501">Yr 2</th> <th data-bbox="1845 427 1984 501">Yr 3 onwards</th> </tr> </thead> <tbody> <tr> <td data-bbox="1440 501 1585 572">For the first time</td> <td data-bbox="1585 501 1715 572">25</td> <td data-bbox="1715 501 1845 572">20</td> <td data-bbox="1845 501 1984 572">15</td> </tr> <tr> <td data-bbox="1440 572 1585 612">Continuing</td> <td data-bbox="1585 572 1715 612">20</td> <td data-bbox="1715 572 1845 612">17.5</td> <td data-bbox="1845 572 1984 612">15</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Brand owners will need to provide audited statements of sales and marketing expenditure abroad and where applicable, explain why actual sales are not in line with the original projection</li> <li>SBP may on an annual review of performance, terminate or amend the amount to be made available for market development.</li> <li>If the SBP determines that the amount allowed for market development has been misspent, it can require the exporter to limit ongoing expenditure to the standard 10%. It</li> </ul>	Brands in Export Markets	% of Projected Sales Allowed for Brand Building			Yr 1	Yr 2	Yr 3 onwards	For the first time	25	20	15	Continuing	20	17.5	15
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		<p>may additionally, levy a fine (to be determined)</p> <ul style="list-style-type: none"> <li>Companies that own more than one brand may avail this facility for up to three brands at a time.</li> </ul>
<p>3. <b>Warehousing Abroad</b></p> <p>Exports are presently deemed to take place when goods are shipped from Pakistan. Export proceeds are required to be realized within the stipulated time period, failing which criminal action can be taken against the exporter and its owners/directors. Holding of inventory abroad, pending sale, is not permitted</p>	<p>The global trend of sales is towards just in time delivery. The lead time, cost of small and multiple shipments and the time-consuming documentation necessitate warehousing of goods near the point of demand. This is all the more essential for sales through online portals such as Amazon, which insist on in-country/regional inventory holding. In the absence of regulations that allow inventory to be held abroad awaiting sale, Pakistan is losing out to near-market suppliers.</p>	<p>Exporters should be allowed to ship goods either to their own warehousing facilities or to third parties to hold until sold to a customer. There should be no restriction on the period of such warehousing provided an independent auditors certificate of stock is submitted on a quarterly frequency. However, exporters availing this facility will be bound to manage annual sales from the warehouse equal to 4 times the average inventory during the year. Exporters should also be bound to arrange remittance to Pakistan an amount equal to Sales less the Custom Duty &amp; taxes paid in the warehousing country less 20% of Sales Value to cover warehousing and distribution expenses OR the FOB value of goods sold during a year, wh ever is higher.</p>
<p>4. <b>Overseas Subsidiaries</b></p> <p>Overseas subsidiaries of Pakistani companies are required to remit their entire annual profit to the parent company in Pakistan. Failure to do so</p>	<p>Investment in subsidiaries is approved by the SBP/ECC to promote exports. Export development requires sustained investment over</p>	<p>Whilst the principle of remitting profit to the parent company from which the investment was originally funded and to the country that</p>

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risks criminal action against the owners of the parent company.	several years. Requiring remittance of profit from the word go defeats the purpose of establishing subsidiaries. Secondly dividends are only possible when cash flow and future plans permit. There can be instances where despite profit, cash flow may be negative.	provided the foreign exchange are sound, a period of five years must be allowed for the investment to be entrenched. Thereafter, if profit does not materialize or is insufficient due to ongoing expansion to remit, the parent company should explain the reasons. The SBP should review and allow more time depending on the strength of the case.

## About the PBC

The PBC is a private sector business policy advocacy forum composed of Pakistan's largest businesses / groups including multinationals that have a significant investment in and a long-term commitment to the growth of Pakistan. Members turnover represents every ninth Rupee of Pakistan's GDP and together the members contribute 25% of the annual tax revenues and 40% of exports. More information about the PBC, its members and its activities can be found on our website [www.pbc.org.pk](http://www.pbc.org.pk)





## The PBC Members by Sector

PBC currently has 82 members, whose businesses cover nearly all sectors of the formal economy. The sector wise representation (in alphabetical order) is detailed below:

Sector	Member Companies
<b>Large-Scale Manufacturing</b>	
Agro Industries	1
Cement	2
Chemicals / Fertilizer	8
Energy	2
Engineering	9
Fast Moving Consumer Goods	18
Packaging Material	2
Pharmaceuticals and Healthcare	6
Textiles	10
<b>Total Members in Large-Scale Manufacturing</b>	<b>58</b>
<b>Services</b>	
Financial service	12
Hospitality	1
Insurance	2
Logistics / Courier	2
Telecommunication	1
Utilities	1
<b>Total Members in the Services Sector</b>	<b>19</b>
Conglomerates	5

## 29 MNC's from 13 Countries



USA



UK



UAE



Switzerland



Japan



## 29 MNC's from 13 Countries



Netherlands



France



Bahrain



South Korea



Hong Kong



Germany



Sweden



Turkey





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