



**Lahore Chamber of
Commerce & Industry**



**Lahore School of
Economics**

Business Confidence Survey 2016



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Executive Summary

In March 2015, the Lahore Chamber of Commerce & Industry (LCCI) and the Lahore School of Economics signed a Memorandum of Understanding which established a link between academia and the business community. As part of this collaboration, the Lahore School and the LCCI conducted its second annual business confidence survey in 2016 to understand the perceptions of the business community regarding the prevailing economic conditions and the level of innovation being done.

115 firms completed this year's survey and results from these responses shed light on the prevalent economic conditions facing firms in Pakistan as well as the sector specific issues facing the business community. Firms that responded were put into different sectors (manufacturing, services and retail sectors) in order to see the differences in the economic performance across various sectors.

Some of the key results from the 2016 Business Confidence survey were:

- A majority of the survey firms said that their sales were higher over the past year and they also expected sales to be higher in 2016.
- A significant number of firms in the manufacturing sector said that their export sales increased over the last year and they expected it to increase again in 2016.
- A majority of firms said that investment increased over the last year and the largest increase in investment in 2015 came in the manufacturing sector where around 76% of firms were able to increase their investment.
- Across almost all firms, the increase in investment in 2015 was not financed by bank borrowing but by the enhanced sales revenues.
- More than 50% firms in the retail, manufacturing and services sectors plan to increase their investment in 2015.
- A significant majority of firms do not plan to utilize bank borrowing for financing their higher levels of investment in 2016.
- A significant proportion of manufacturing and service sector firms managed to increase their number of employees in 2015 and both these sectors seem optimistic about further increases in their employment levels in 2016.
- There was significant optimism when firms were asked about their expectations about Pakistan's economy, with approximately 50% of the firms expecting the economy to do better in 2016.

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- Access to finance was considered a critical element for conducting business since 70% of the firms (in the sample) found “access to finance” to have a major impact on their business.
- 57% of the firms considered shortage of skilled labour to have a major impact on business and this proved to be a key issue for the manufacturing and services sectors.
- Slow or ineffective mechanisms to enforce contracts were significantly more important for firms in the services sector as compared to the firms in the retail and manufacturing sector.
- As expected, energy shortages have had the most significant impact on firm level growth with about 8 out of 10 firms surveyed in the manufacturing and retail sector finding this to be their greatest constraint.
- The survey found that problems of law and order are almost as important to firms as energy shortages with almost 7 out of 10 of the firms considering law and order to have a major impact on business.
- 68% of the firms considered provincial taxes to have a major impact on business.
- 69% of the firms considered federal corporate tax policies to have a major impact on business and 73% of firms considered import or custom duty policies to have a major impact on business.
- 72% of the responding firms said that they engaged in innovation last year and the majority of innovation done by firms was in the areas of production and marketing.
- A majority of firms plan to upgrade their technology (85%) and most of these firms say that they plan to improve their technologies on the production and marketing sides.
- The vast majority of manufacturing sector firms were focusing on innovating and upgrading technology in production and plan to continue to focus on this aspect (though they were also innovating on the marketing side).
- Manufacturing firms were getting information on innovation from the internet, exhibitions, customers and suppliers of machinery
- In the services sector, the majority of innovation and technology upgradation took place on the marketing side and firms plan to increase their focus on this in the present year
- Unlike the manufacturing sector, the services sector is also focusing on innovation and technology upgradation in other areas like finance and human resources.

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- Innovation and technology upgradation in the retail sector is done in a far more even way across areas such as marketing, human resource management and production and retail sector firms are planning to continue this diverse investment in the coming year.
- Learning about innovation and technology upgradation from customers, internet and exhibitions seems to be the norm among the sample of firms, especially for the manufacturing and services sector
- Trade associations and suppliers of machinery are also important source of information for the retail sector.
- Academic, research and public sector institutions have failed to form a strong connection with firms.
- There seems to be little technological spillovers between firms.
- The services sector is ahead of the manufacturing and retail sector in terms of indigenous innovation, as 22% of the firms have stated that they learn about new technology and innovation from their own research and development department

1. Introduction

In May 2015, the Lahore Chamber of Commerce & Industry (LCCI) and the Lahore School of Economics conducted its first annual business confidence survey as part of its recently signed MOU on collaborative activities. The reason behind this survey was the understanding that economic-growth is driven by private-sector economic activity. This in turn is critically dependent upon the perceptions of the business community regarding the prevailing economic conditions. In an attempt to measure these perceptions over the past years, this survey questioned the business community about the impact of economic conditions on their businesses over the past year, as well as their expectations for the future.

A few key messages emerged from the 2015 survey: First, between 2014 and 2015, firms grew in terms of sales, investment and size. Second, firms across all three sectors (manufacturing, retail, services) anticipated higher growth in 2015-2016 and were also planning to increase their investment levels which has further spillover effects on growth. Third, the survey found that the firms were extremely concerned about sources of financing and that the banking sector was falling far short of meeting their needs. Fourth, firms felt that there were significant shortages in the pool of skilled labour which was a major constraint to growth. Fifth, firms pointed to energy shortages as a major constraint on growth. Sixth, firms found both provincial and federal regulations and taxes extremely cumbersome and a significant drag on growth.

In 2016, the Lahore School and the LCCI conducted its second Business Confidence survey, in which it asked a variety of firms about the same issues as well as posed questions about their level of innovation and technological upgradation. The reason for including questions on innovation and technology was to see if the optimism expressed by firms in the previous year's survey was followed by investments in innovation and technology and then to see in which areas firms focused on in terms of these investments.

This survey was administered electronically by members of the LCCI. Realizing that firms are heterogeneous in terms of size and sector, firms were divided into three sectors for the sake of analysis: (1) the **manufacturing sector** (2) the **services sector** and (3) the **retail sector**.

The major themes of the questions asked in the survey were:

- a) Comparison of revenue from total sales in 2014 with 2015
- b) Comparison of revenue from domestic sales in 2014 with 2015
- c) Comparison of revenue from export sales in 2014 with 2015
- d) Expectations of export sales in 2016
- e) Expectations of domestic sales in 2016
- f) Expectations of total sales in 2016
- g) Comparison of bank borrowing in 2014 with 2015

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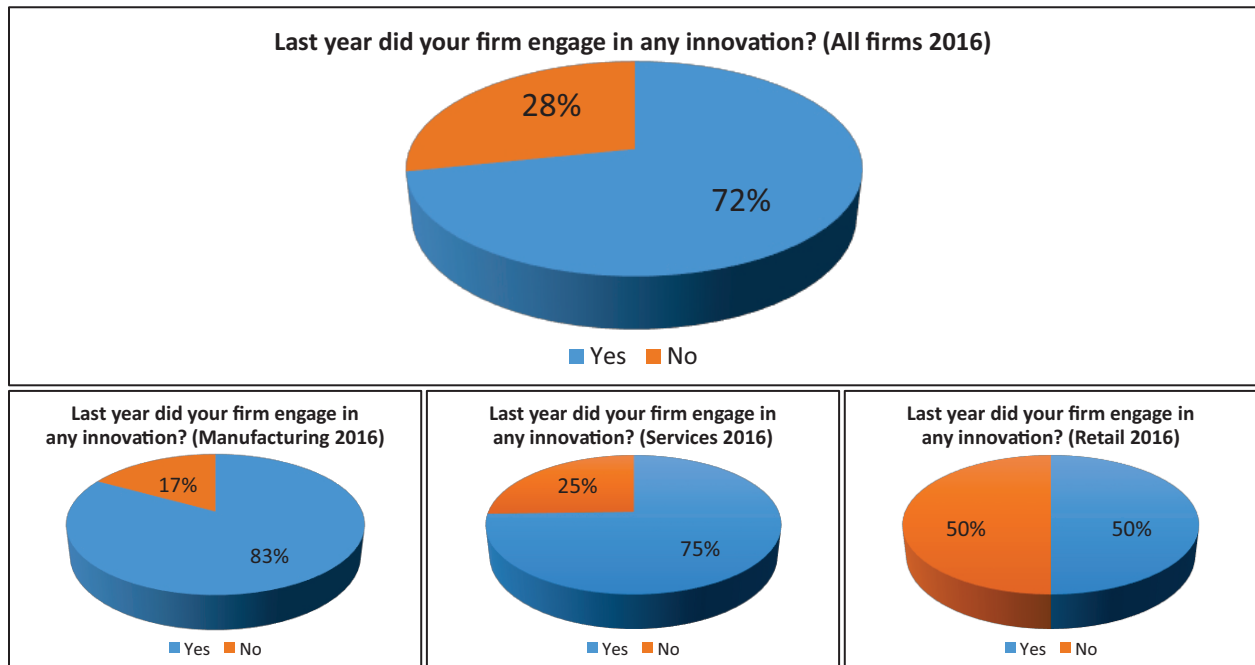
- h) Expectations of bank borrowing in 2016
- i) Comparison of investment in 2014 with 2015
- j) Expectations of investment in 2016
- k) Comparison of number of employees in 2014 with 2015
- l) The impact of factors such as access to finance, law and order, energy, recession in world markets such as EU and USA, foreign competition, shortage of skilled labour and slow mechanisms for dispute resolution.
- m) The impact of provincial regulations such as taxes, law and regulations, industrial zoning policies and commercialization policies and costs.
- n) The impact of federal regulations such as corporate tax policies, income tax policies and import and custom duty policies.
- o) Whether firms had innovated last year and if they were planning to innovate in the next year
- p) What areas of their business (such as production, marketing, finance, etc.) were firms innovating in
- q) Whether firms had upgraded their technology last year and if they were planning to upgrade their technology in the next year
- r) What areas of business (production, marketing, finance etc.) are most firms innovating in
- s) What are the sources from which firms learn about new innovation and technologies

The results of the survey are discussed in sections appended below, and they highlight some of the key trends and lessons which can be used by not only the business community, but also policy makers and academics.

2. Analysis of Questions on Innovation and Technology

When firms were asked whether they engaged in innovation last year, 72% of the responded by saying yes and the majority of innovation done by firms was in the areas of production and marketing. These results are illustrated in Figure 1:

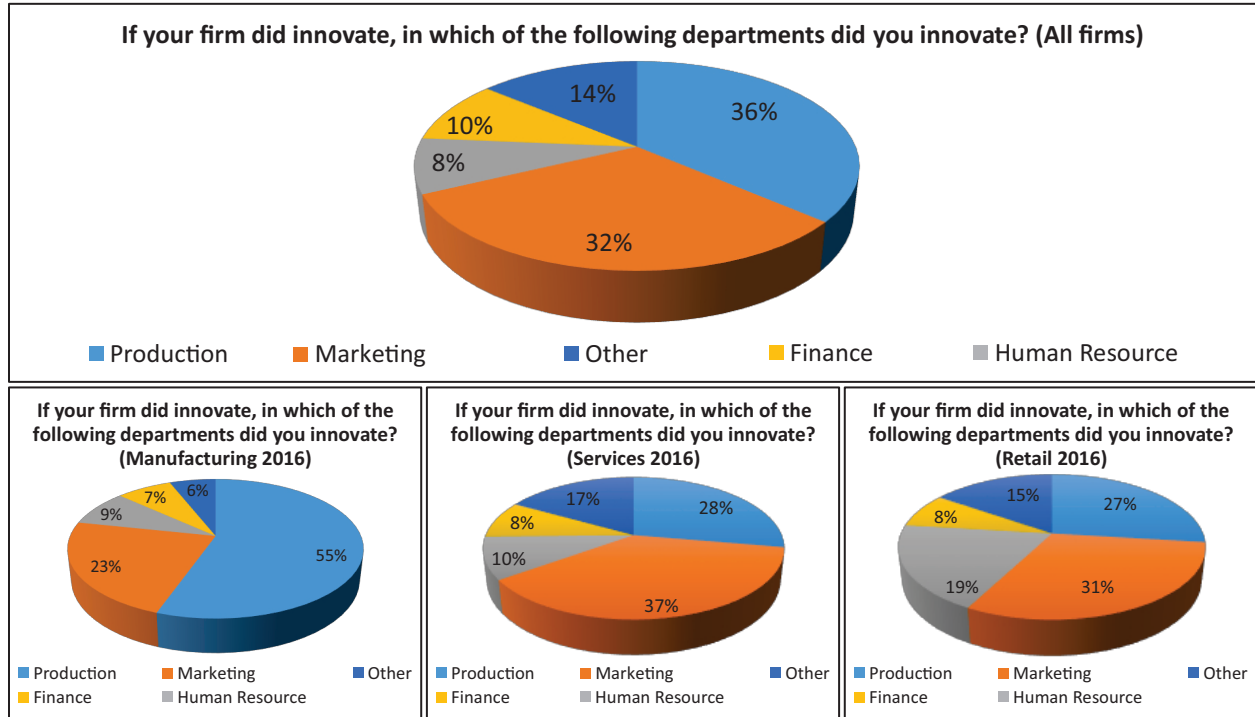
Figure 1:



When one asked firms about technological upgradation as opposed to innovation, 75% of firms said that they engaged in technological upgradation in the last year. The majority of

technological innovation was focused on production and marketing. These results are illustrated in Figure 2:

Figure 2:



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These questions were then followed by a question on whether firms planned to upgrade technology. Not only does a significant majority plan to upgrade their technology (85%), the responses show that a greater number of firms plan to upgrade their technology this year as compared to last year. The majority of firms say that they plan to improve their technologies on

the production and marketing sides, this combined percentage is smaller than that from the previous breakdown, which implies that firms may be beginning to focus their attentions on upgrading technologies in other areas like human resources and finance. These results are illustrated in Figure 3a, Figure 3b, Figure 3c and Figure 3d:

Figure 3a:

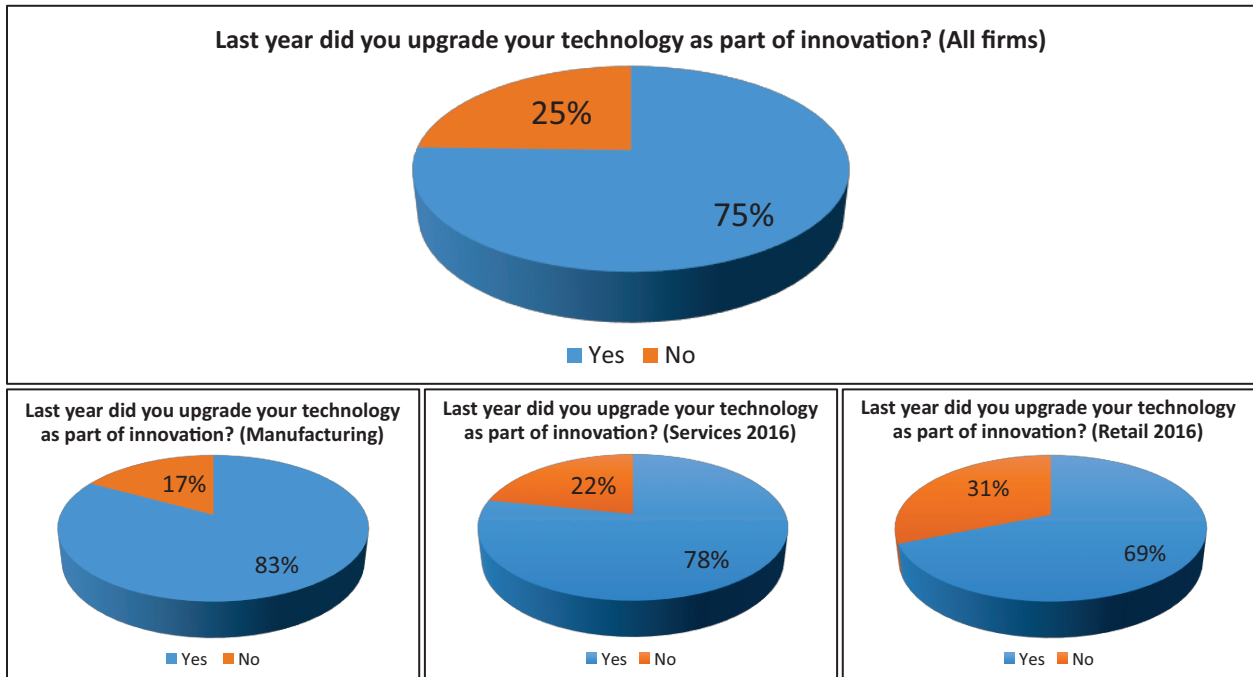


Figure 3b:

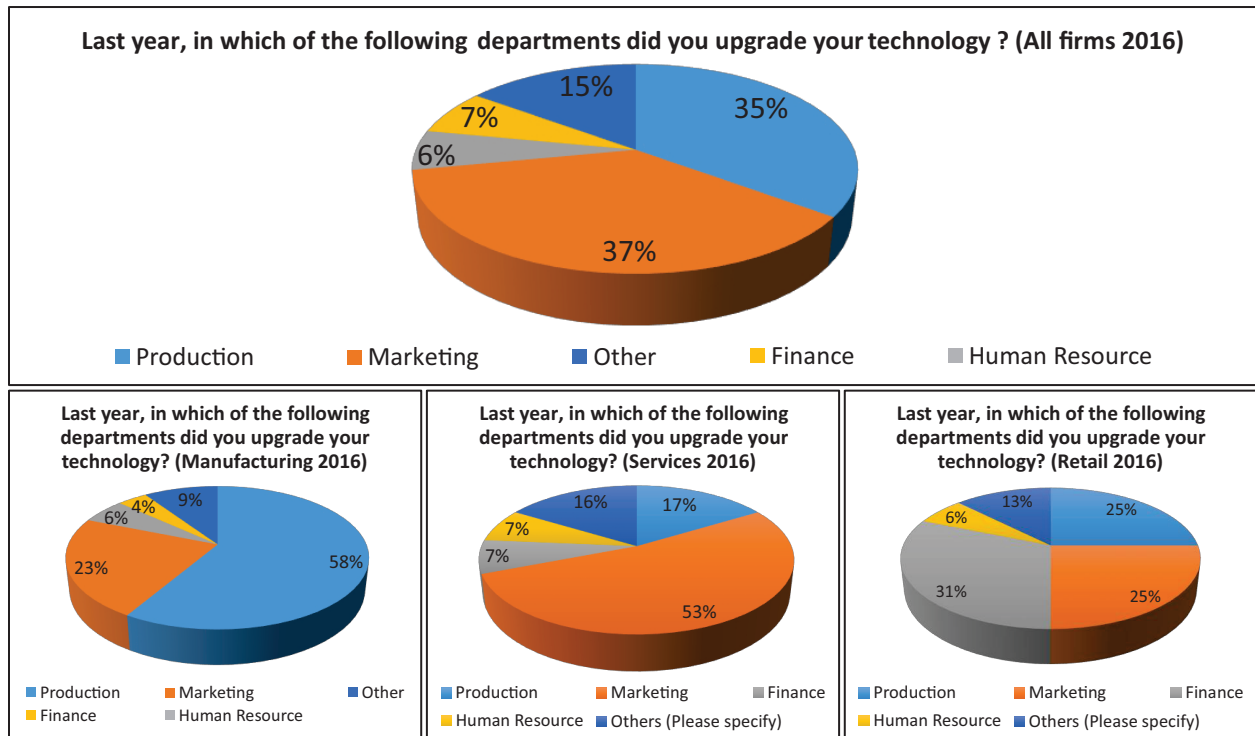


Figure 3c:

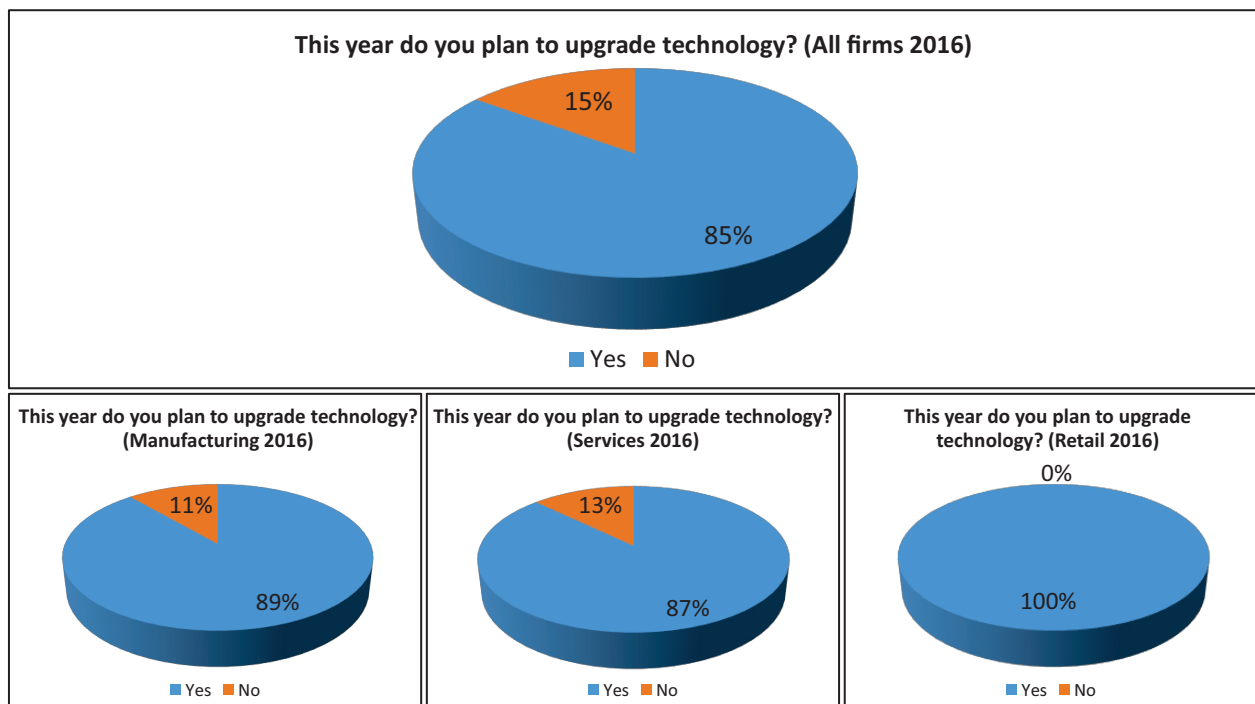
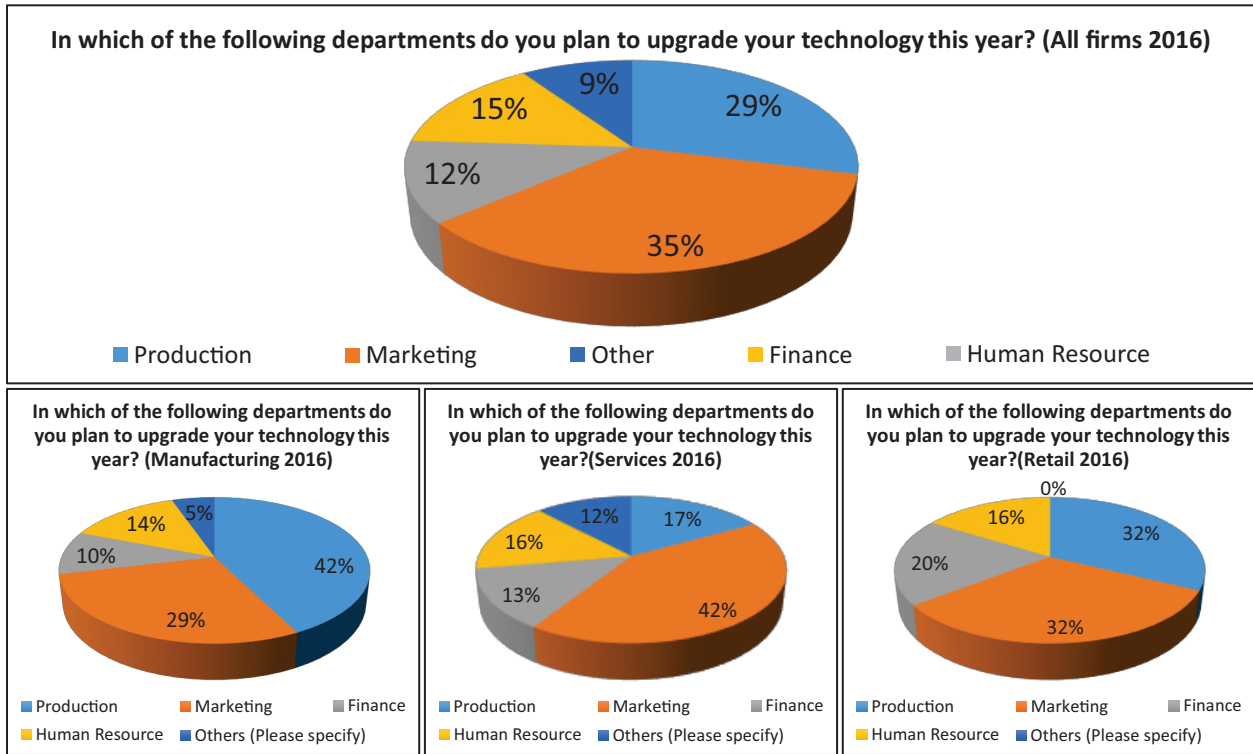


Figure 3d:

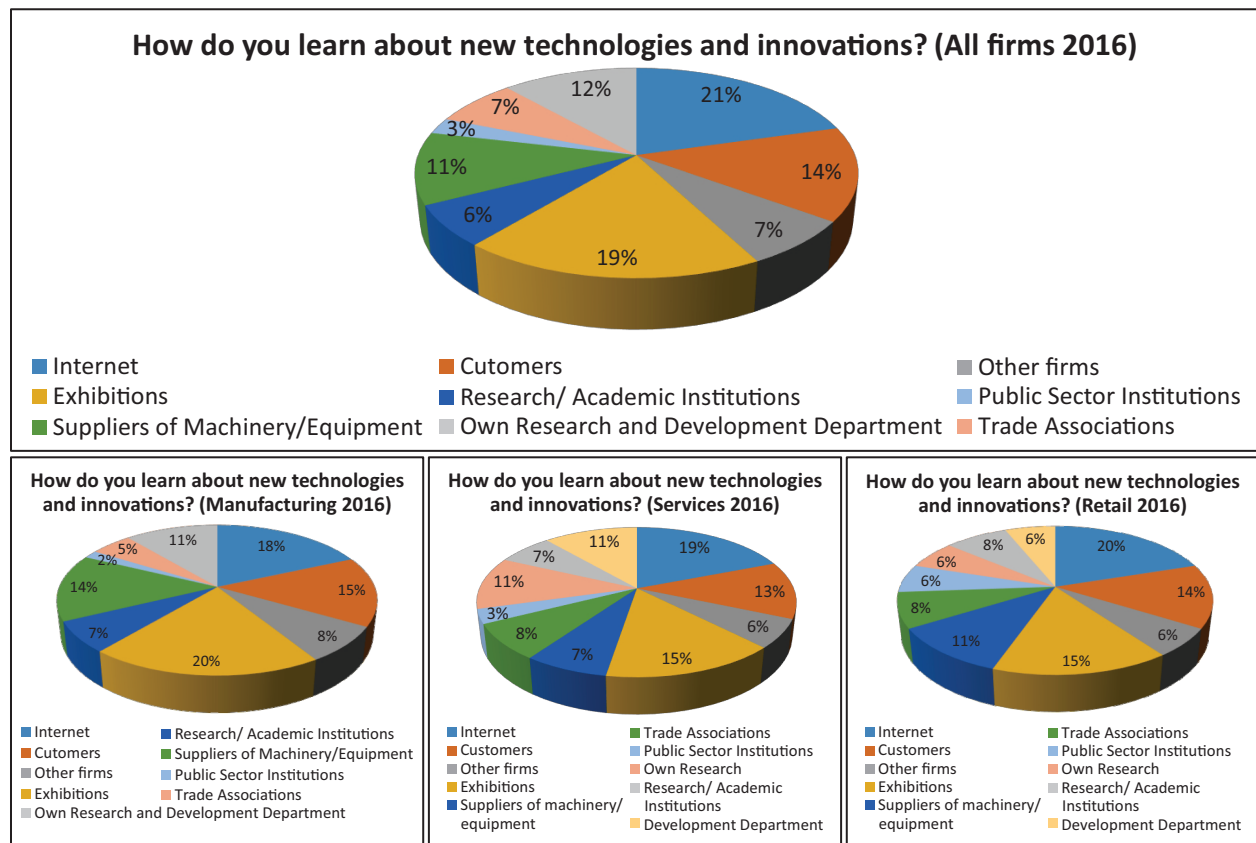


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Finally, firms were asked how they learned about new technologies. What is interesting here is that a significant number of firms learned about new technologies and innovations from the internet, exhibitions, and customers. What is also extremely interesting is that a very small percentage said that they learned about innovations and new technologies from research,

academic institutions and public sector institutions showing the failure to link academia/research/public sector with firms. Firms also reported very little spillovers between firms in terms of technologies and innovations implying very little cooperation amongst firms. These results are illustrated in Figure 4:

Figure 4:



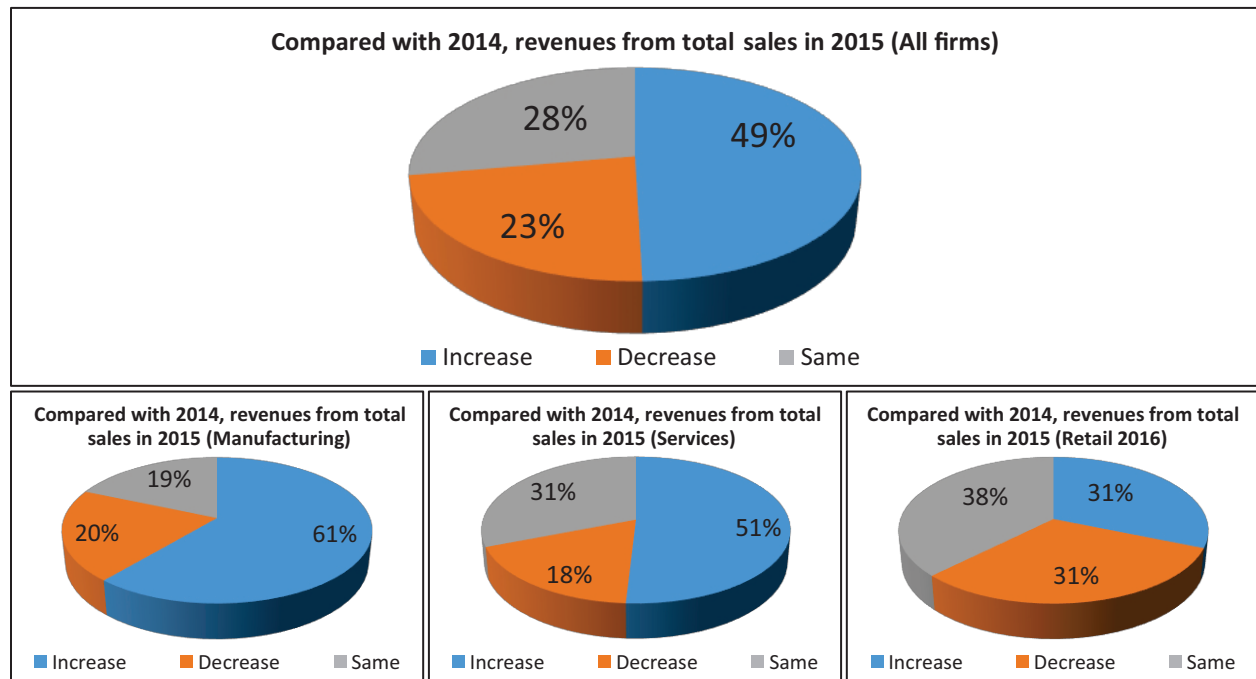
3. Analysis of Firm Level Sales

The next section of the survey focused on the sales of firms. This was done to see how both domestic and global factors impacted a firm's output. As discussed above, the firms were divided into manufacturing sector, services sector and the retail sector firms.

In response to the question asked regarding the comparison of revenue in 2015 and 2014, a greater percentage of manufacturing firms in 2014 (61%) experienced a revenue increase from total sales as compared to firms in the services industry (51%). Retail firms lagged behind as only (31%) were able to reported higher revenues from total sales in 2014 and the same percentage experienced a decrease in revenues. These results are illustrated in Figure 5.

The results from last year's survey showed that in response to the question about the comparison of revenues in 2013 and 2014, 63% of manufacturing firms in 2014 showed a revenue increase from total sales as compared to firms in services industry (50%). Retail firms lagged behind as only (42%) reported increasing their revenues from total sales in 2014 and the same percentage experienced a decrease in revenues. One of the reasons for this increase in domestic sales across sectors can be a better macroeconomic environment, especially a decrease in the inflation rate to around 6%, lower interest rates and a more stable supply of electricity.

Figure 5:



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This year's survey also asked about sales in 2015, for both domestically targeted output and exports. Firms seem to follow last year's trend as firms in the manufacturing sector stated that they experienced significant growth in both domestic and export sales in 2014 which is a positive economic indicator. Firms in the services sector said that they experienced significant growth in domestic sales but not in exports. This is important because it illustrates how Pakistan has

yet to tap into the global market for service exports. The retail sector seems to have slowed down in terms of export sales as last year 28% suggested that they realized an increase in export sales, this year only 17% have reported an increase in sales. However on the domestic side, retail firms seem to have grown as last year 32 % experienced an increase in domestic sales, but this year 50% have reported an increase. These results are illustrated in Figure 6a and Figure 6b:

Figure 6a:

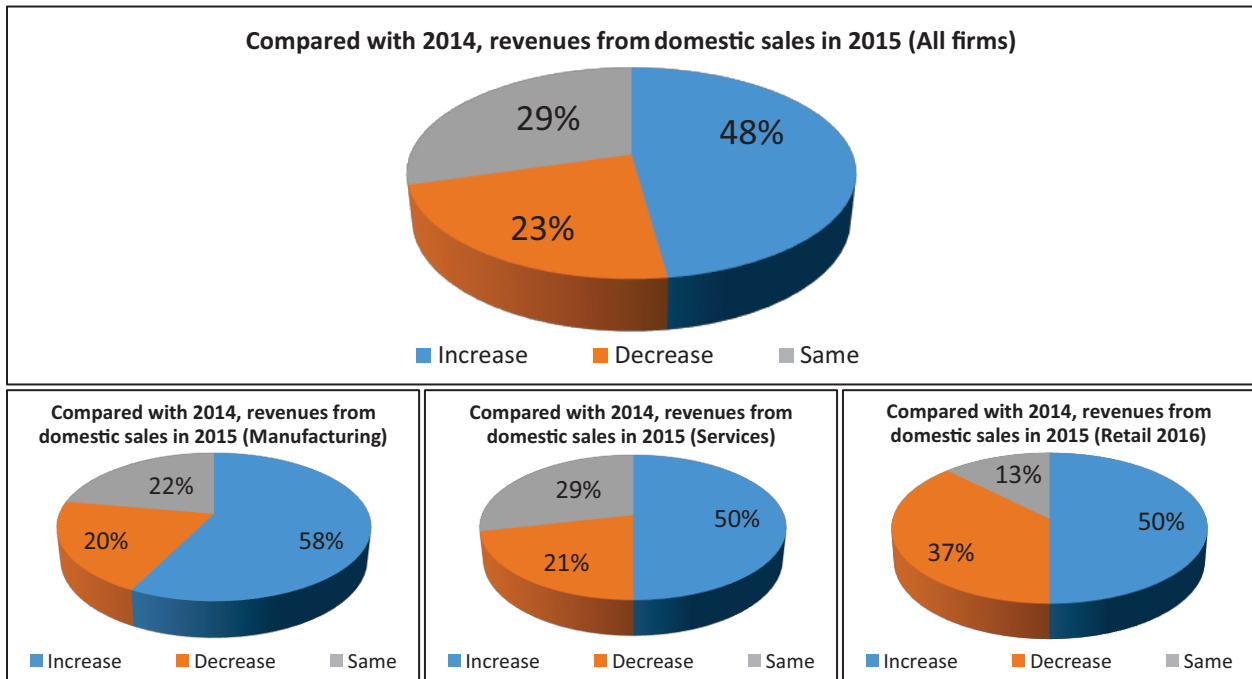
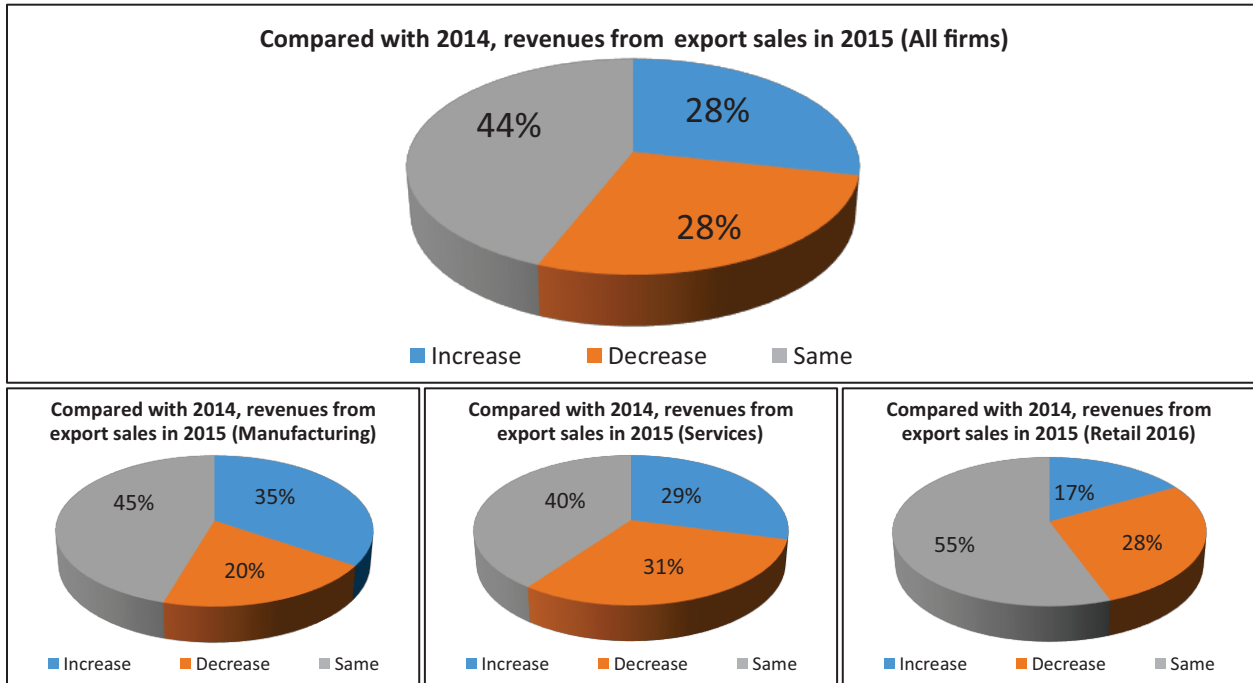


Figure 6b:

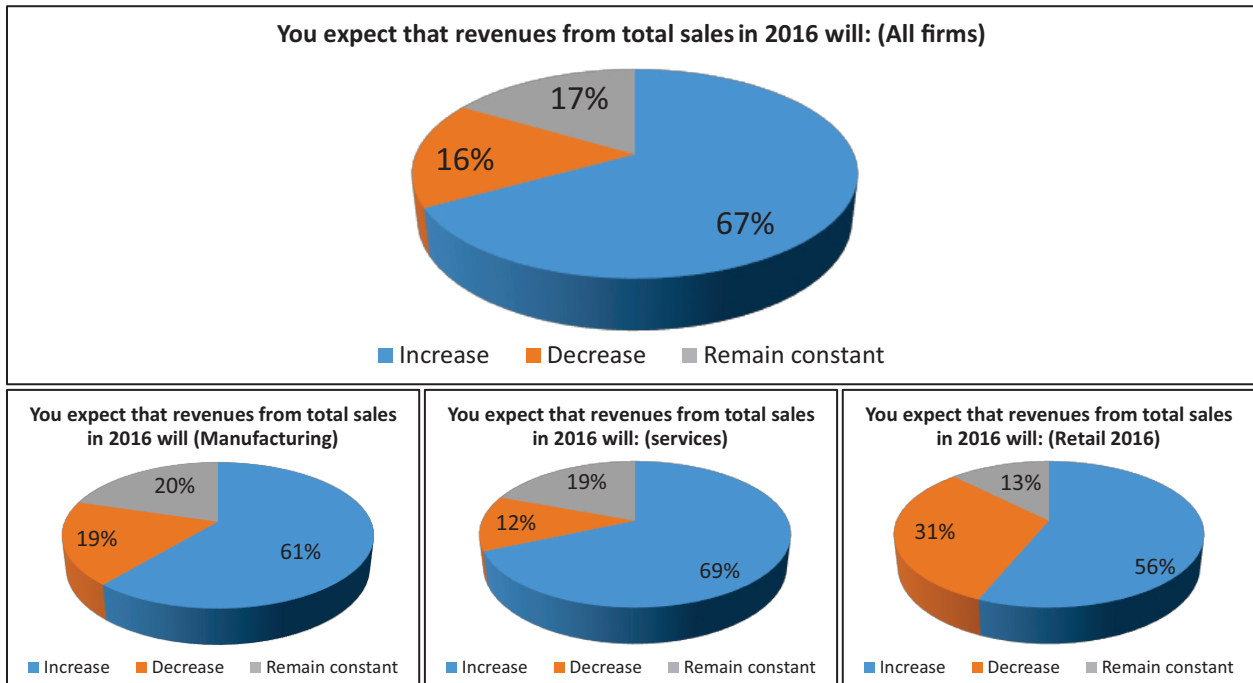


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The second part of the sales analysis focused on expectations regarding the coming year. The results were interesting because across all three sectors, firms were even more positive about having higher sales in the upcoming year as

compared to the results of last year. This year, 67% firms expect higher revenues from total sales as compared to 62% last year. These results are illustrated in Figure 7:

Figure 7:



As compared to last year, expectations of revenues from total, domestic and export sales suggest similar results, however a higher percentage of firms in the retail sector seems to expect more revenue from domestic sales (62%) as compared to 41% last year. What is even more interesting is the break-down of this analysis between expectations of domestic and exports sales. The results show that firms are extremely optimistic about having higher domestic and export sales over the coming year. This is important in two ways: 1) expectations of higher sales both domestically and

internationally shows that firms feel that the Pakistani economy as well as the international economy are pulling out of the economic slow-down experienced over the last few years 2) higher expected exports bode well for Pakistan's balance of payments which has been a source of weakness over the last decade. Expectations of higher exports may be driven by optimism in the textile sector which expects its exports to go up due to better energy supply, lower inflation, lower interest rates and GSP plus status. These results are illustrated in Figure 8a and Figure 8b:

Figure 8a:

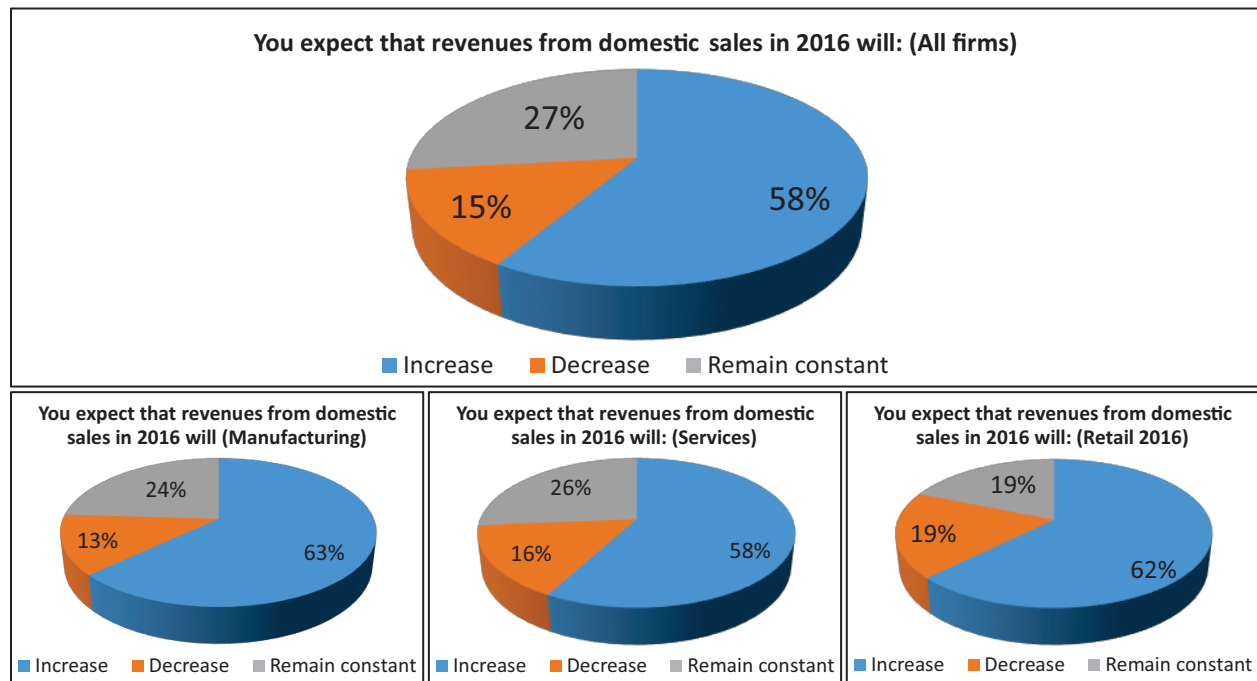
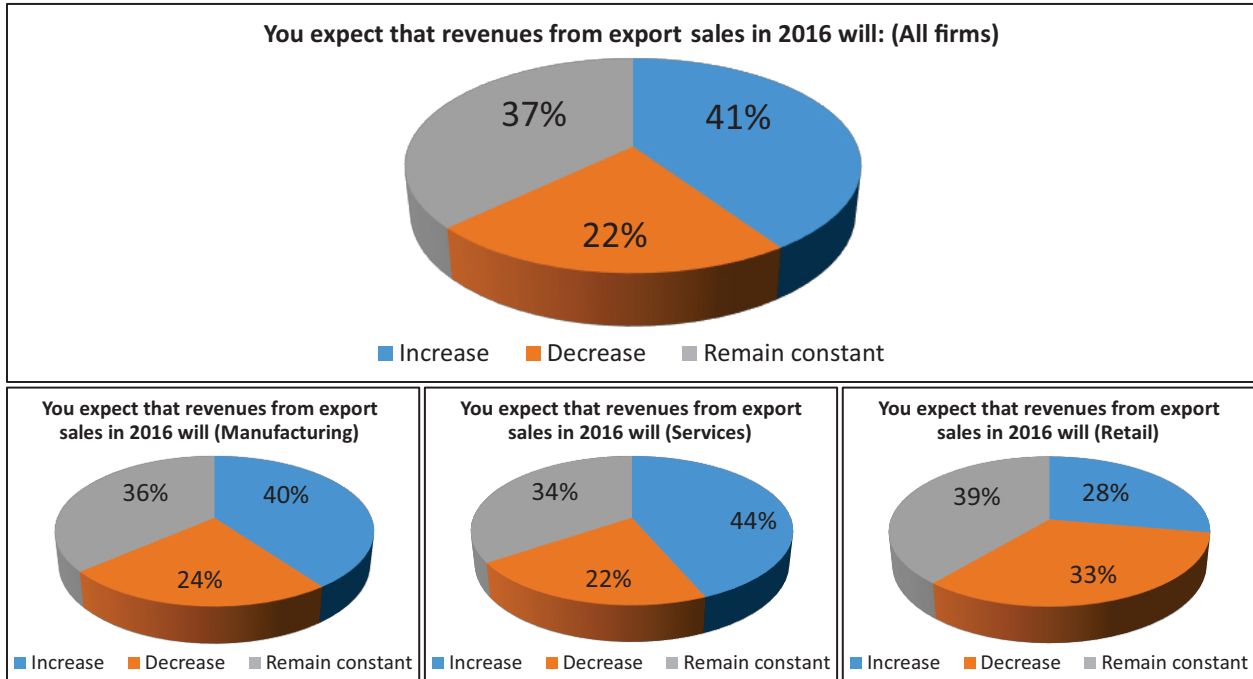


Figure 8b:

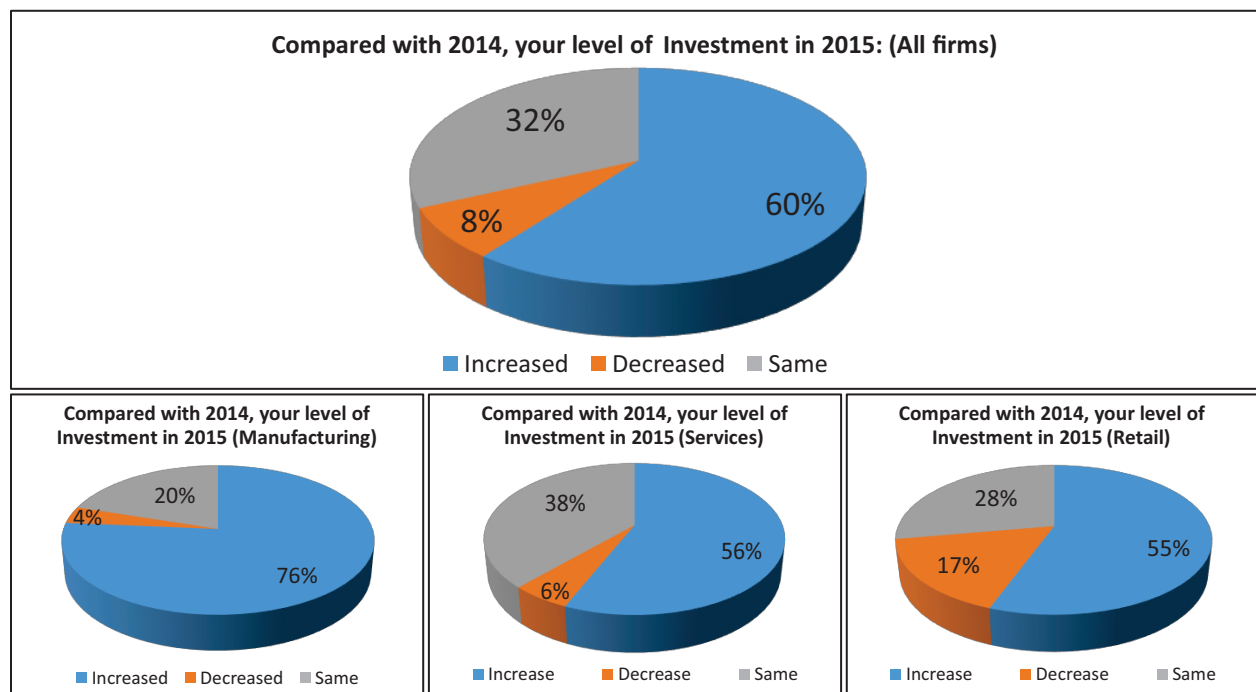


4. Analysis of Investment Levels and Bank Borrowing

In the third section of the survey, firms were asked to compare their level of investment in year 2014 with year 2015 alongside expectations about investment in 2016. The results of this year's survey are similar to last year's results and show a similar composition of the level of investment and bank borrowing. The survey shows that the largest increase in investment in 2015 came in the manufacturing sector where around 76% of firms reported that they increased

their level of investment. Even in the services and retail sector, more than 50% firms were able to enhance their investment in 2014. This paints an optimistic picture for the economy of Pakistan as firms across all sectors have shown an increase in the level of investment as compared to the level of investment reported by firms in the survey last year. These results are illustrated in Figure 9:

Figure 9:

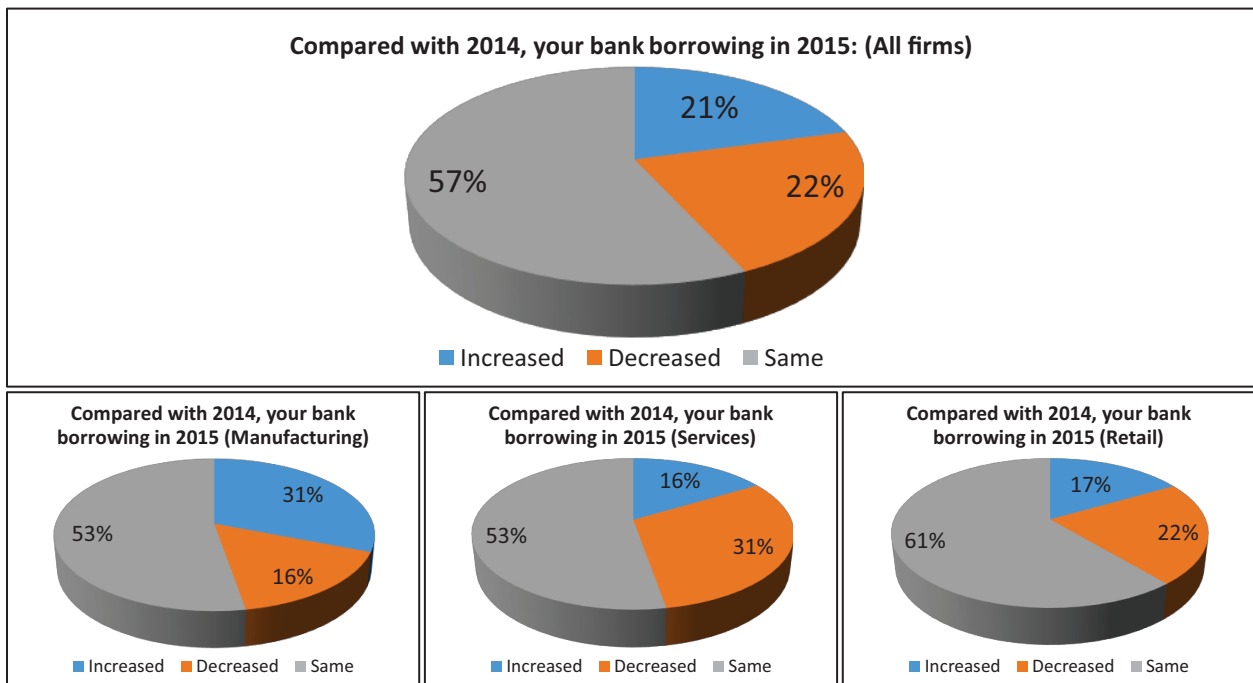


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Interestingly, the increase in investment in 2015 was not financed by bank borrowing but by the enhanced sales revenues. Only 31% of firms in the manufacturing sector increased their bank borrowing in 2015. This percentage gets lower in services and retail sectors where only 16% and 17% firms respectively increased their bank borrowing in 2015. It seems that only the services

sector has realized an increase in borrowing as compared to last year, as only 11% firms in 2014 had reported an increase in bank borrowing while 16% have reported an increase this year. Last year, the retail sector had reported a 21% increase in bank borrowing, however this year it has reported an increase in bank borrowing of 17%. These results are illustrated in Figure 10:

Figure 10:

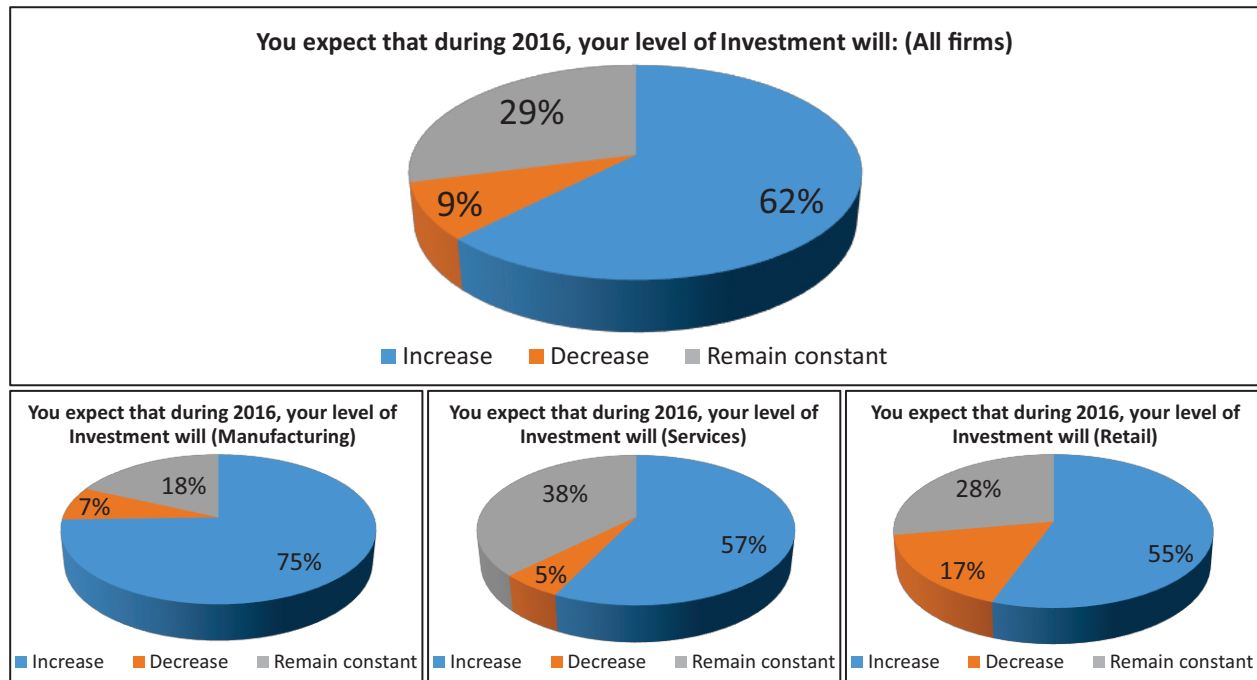


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When the firms were asked about their expectations over the coming year, there was a high level of positivity regarding future investment. 75% firms in the manufacturing sector plan to increase their investment in 2015, while the figure for retail and serviced sector is also more than 50%. This shows that firms are confident that Pakistan's economy will grow

significantly over the coming year. The manufacturing sector seems even more optimistic in 2016, as 75% firms have reported that they expect to increase investment, while 65% manufacturing firms had expected to increase investment in 2015. These results are illustrated in Figure 11:

Figure 11:

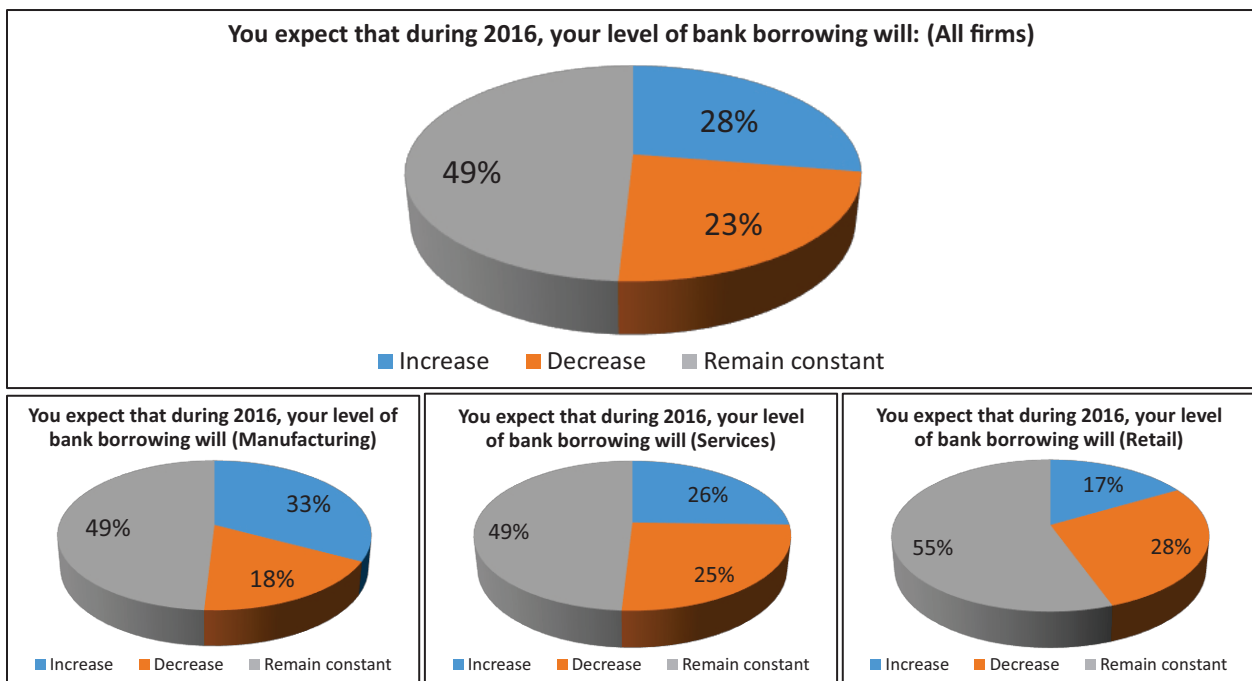


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Finally, firms were asked whether they expect bank borrowing to increase, decrease or remain the same. The responses follow last year's trend and firms in all the three sectors do not plan on utilizing bank borrowing facility to finance their investment. This may be indicative of both supply

and demand side problems when it comes to bank lending, especially when one takes into account the fact that interest rates are falling in Pakistan. This also shows that the financial sector is failing to meet the needs of the business community. These results are illustrated in Figure 12:

Figure 12:



5. Analysis for the Number of Employees at the Firm Level

Since information on firms sales-levels are both notoriously unreliable and extremely difficult to maintain, this survey tried to determine firm size and whether firms were planning to expand by asking questions regarding the number of employees.

The survey results showed that a significant proportion of manufacturing and service sector firms managed to increase their number of employees in 2015. Following last year's trend,

both these sectors seem optimistic about further increase in their employment levels in 2015. As compared to last year, manufacturing and retail firms seem to take the lead on hiring more employees as 49% and 20 % of manufacturing and retail firms respectively had reported a higher number of employees in 2014, however in 2015 61% and 44 % of manufacturing firms have reported an increase in the number of employees. These results are illustrated in Figure 13a and Figure 13b:

Figure 13a:

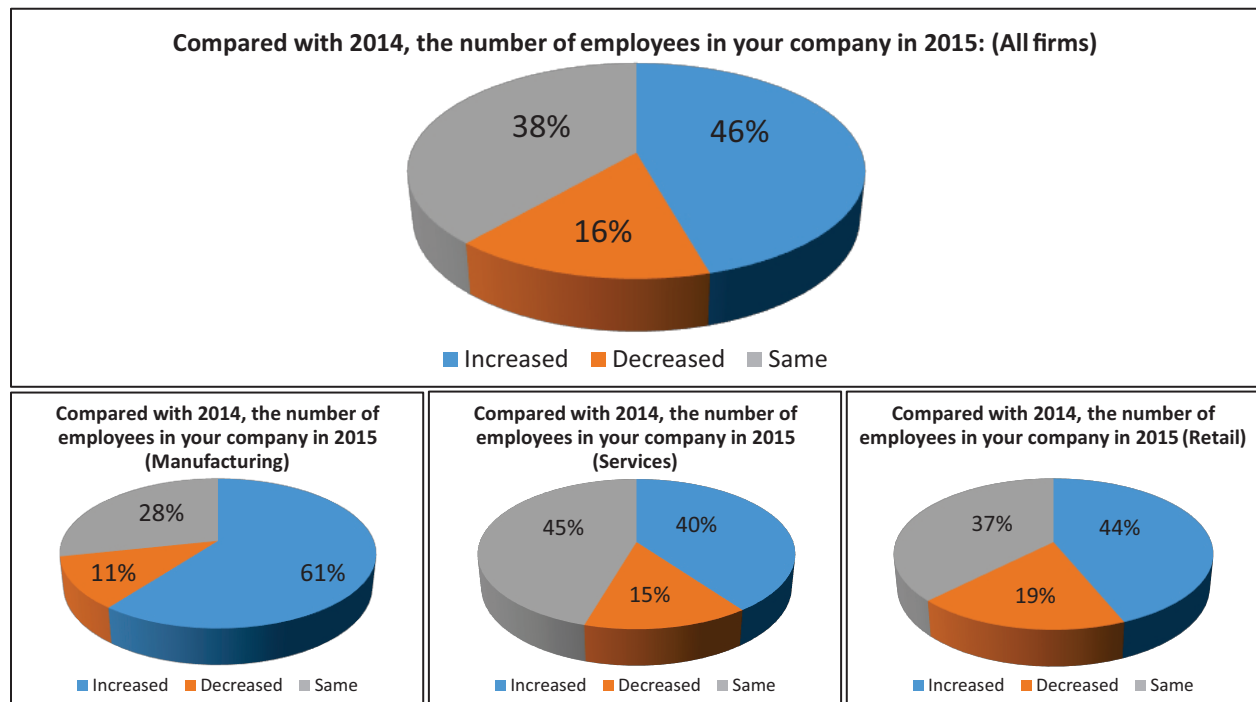
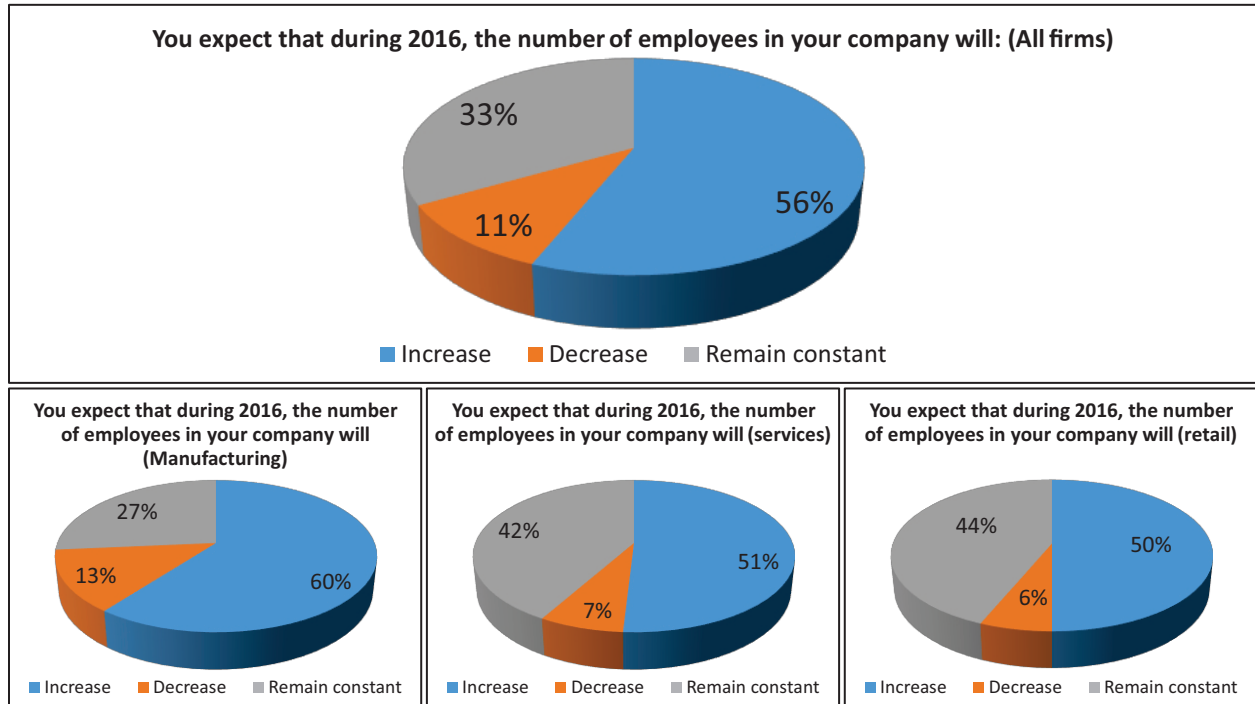


Figure 13b:



The overall increase in employment levels in the manufacturing and services sectors may be explained by the positive impact of higher sales in these sectors. Also, their planned expansions may be driven by higher anticipated domestic and export sales.

On the other hand, the more stagnant employment trend in the retail sector may be because of the different set of constraints faced, such as high commercialization costs and high rates of import /custom duties faced during purchase of goods. Lack of optimism regarding sales growth adds to retailers being skeptical about increasing employment in 2015.

6. Analysis of Firm Level Expectations about Pakistan’s Economy

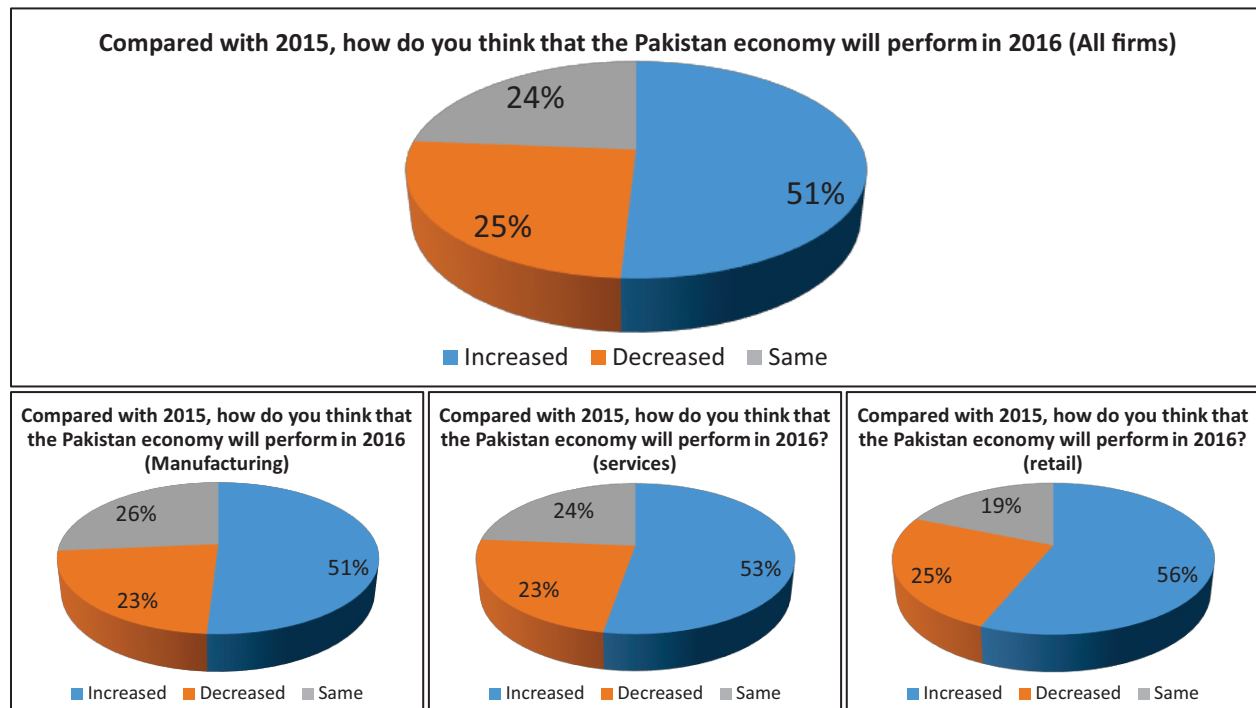
In order to get a general sense of feeling amongst the firms concerning the state of Pakistan’s economy, firms were asked a general question about their expectations of the economy in 2016.

The level of optimism about the future of the Pakistan economy had been sensed in last year’s survey and the responses this year also show significant optimism when firms were asked about their expectations about Pakistan’s economy, with more than 50% of the firms expecting the economy to do better in 2016. Interestingly the

level of optimism is almost uniform across firms in manufacturing, services and retail sectors. These results are illustrated in Figure 14:

The recent trend in GDP growth, improvement in law and order conditions, Pakistan’s new economic partnership with China, lower inflation, lower interest rates, decrease in the fiscal deficit and expected completion of various energy and infrastructure projects may be some of the factors driving this optimism.

Figure 14:



7. Analysis of Other Factors Affecting Firms

In the final section of the survey, firms were asked to give their opinions on a wide range of other factors that may have an impact on their business. These factors ranged in scope from domestic factors to foreign factors and the impact of each of these factors is discussed below:

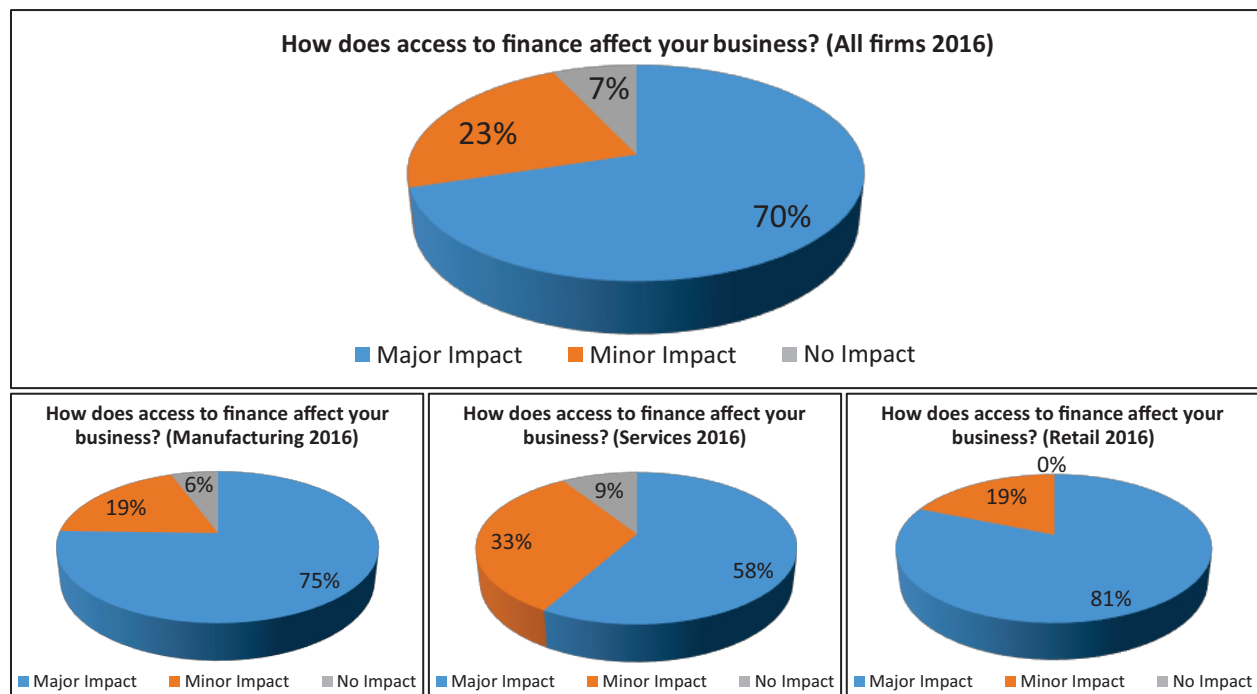
7.1. Access to Finance

Firms were asked how ‘access to finance’ impacts their business. This year access to finance seems to be an even more important element as compared to last year since 70 % of the firms (in the sample) found ‘access to finance’ to have a major impact on their business as compared to 58% last year . Access to finance seemed to hold a greater importance for all firms: 75% of the firms in the manufacturing sector consider access

to finance to have a major impact on their business, while 58% considered it to have a major impact last year. 81% of the firms in the retail sector consider access to finance to have a major impact on business as compared to 60 % of the firms in the previous year. These results are illustrated in Figure 15:

The results seem to imply that access to finance seems to be a major growth impediment for firms in the manufacturing, services and retail sector. The main reasons behind this result may be the irregular availability of financing facilities and lack of government initiatives in this area. Firm owners stated that banks offer high rates of interest and lengthy documentation procedures which ultimately act as a hindrance for sectors to avail such facilities.

Figure 15:



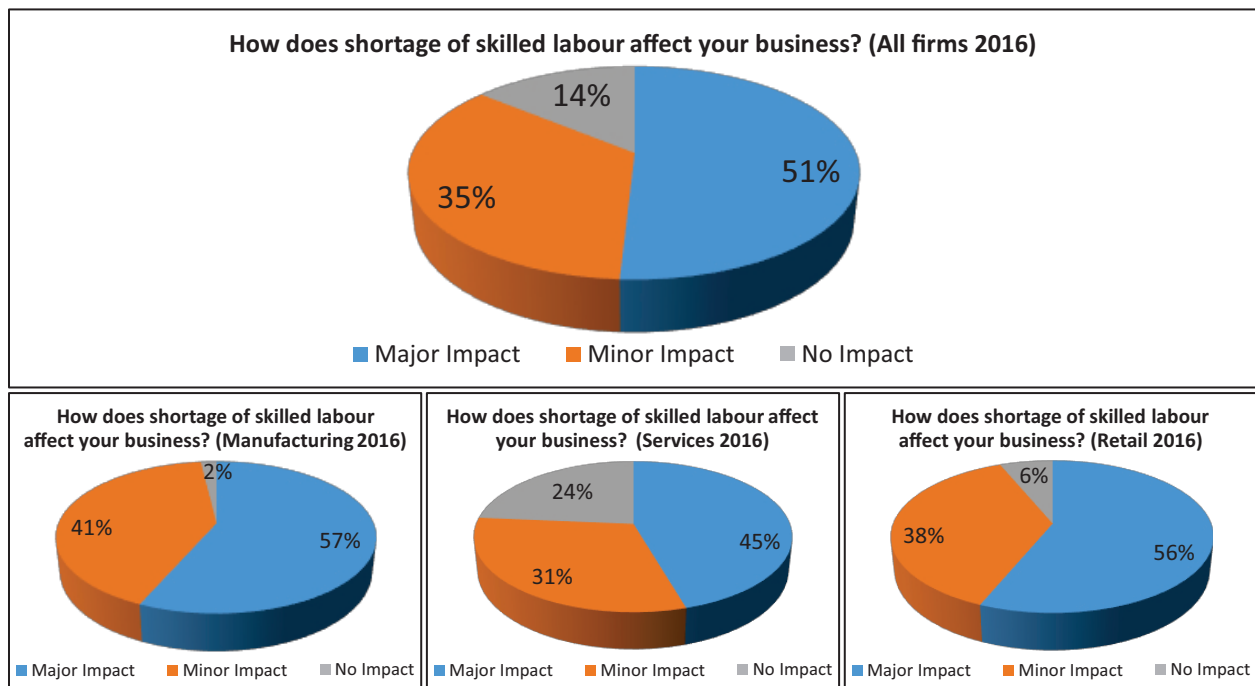
7.2. Shortage of Skilled Labour

Firms were also asked about how the shortage of skilled labour has impacted their business. Last year, approximately 50 % of the firm in all sectors had reported shortage of skilled labour to be a major impediment to growth. 51% of the firms consider shortage of skilled labour to have a major impact on business. Shortage of skilled labour seems to be a more important variable for the manufacturing and services sectors as compared to the retail sector, since 57% of the firms in the manufacturing sector and 45% of the firms in the services sector found this shortage to have a major impact on their business. For retail firms, shortage of labour seems to be an increasing concern as only 35% of firms in the

retail sector reported shortage of skilled labour to have a major impact on business, however this year, 56% have reported it to have a major impact. These results are illustrated in Figure 16:

These results show that shortage of skilled labour is a greater impediment to growth in the manufacturing and services sector as compared to the retail sector. Firm owners stated that the shortage of skilled labour stems from lack of vocational training institutes, in Pakistan. This shortage in turn results in firms relying on in-house training to impart skills to workers. For example, the textile and ready-made garments sector, has often complained that hiring trained stitching operators seems to be a challenge due to lack of training institutes.

Figure 16:

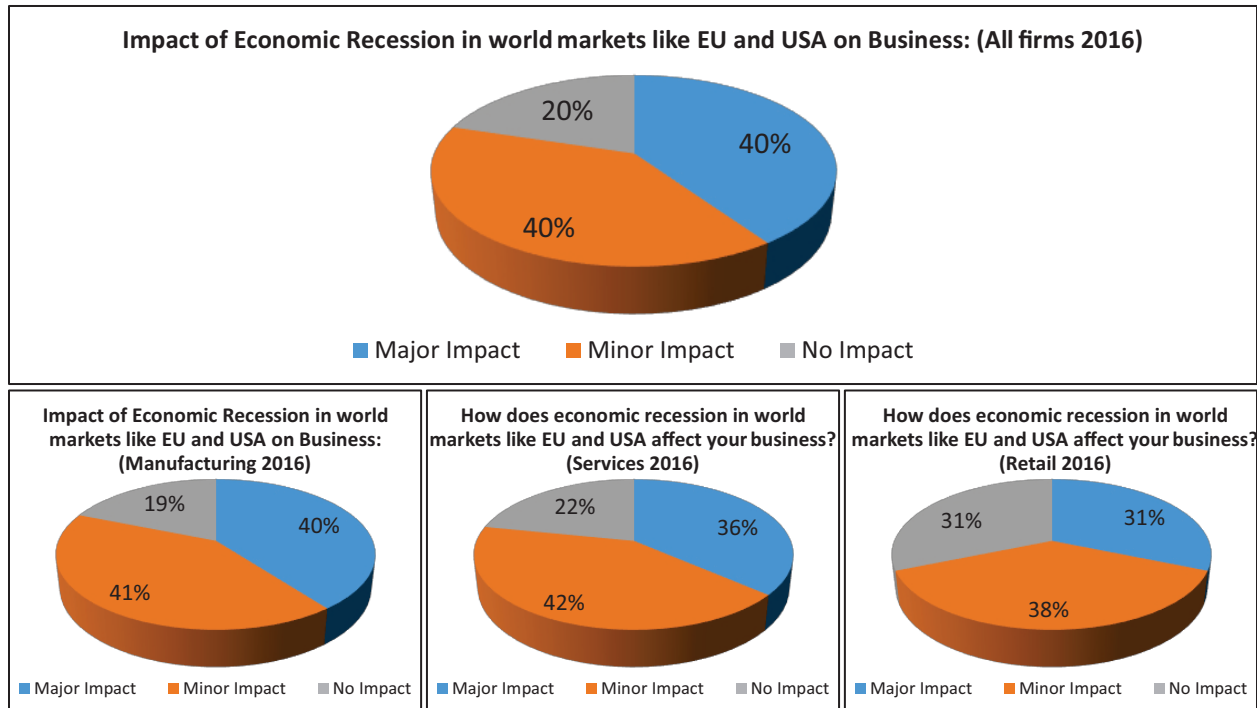


7.3. *Economic Recession in the world markets*

Firms were asked how the economic recession in the world markets impact their business. Last year, 31% of firms had considered economic recession in world markets to affect businesses, however this year 40 % of all firms consider the economic

recession to have a major impact on business, and the economic recession in world markets like EU and USA seemed to be relatively more important for firms in the manufacturing and services sector as compared to the retail sectors. Economic recession in the world markets seems to an increasing concern for the business community. These results are illustrated in Figure 17:

Figure 17:



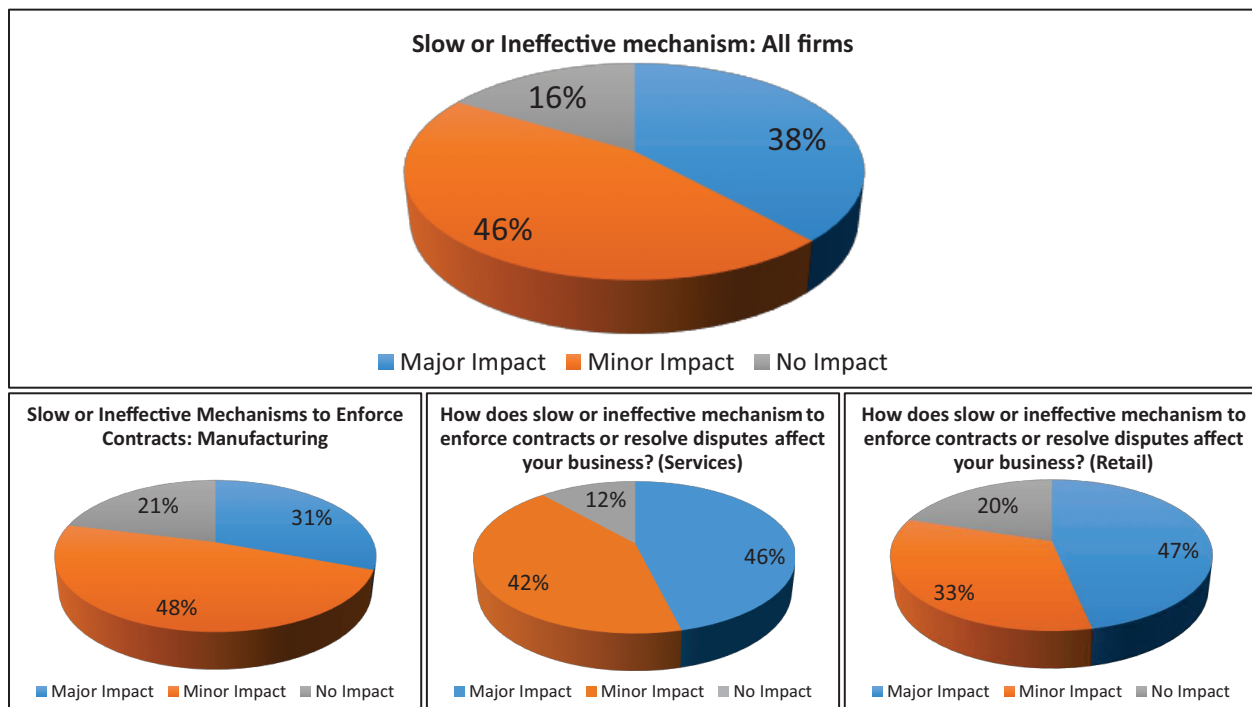
7.4. Ineffective Mechanism to Enforce Contracts or Resolve Disputes

Firms were also asked about how slow or ineffective dispute resolutions impact their business. Last year 43% of the firms had considered ineffective mechanisms to resolve disputes to be important, however this year 39% of the firms consider slow or ineffective mechanism to enforce contracts as a major impact on business, and slow or ineffective mechanism to enforce contracts were significantly more important for firms in the

services and retail sector as compared to the firms in the manufacturing sector. These results are illustrated in Figure 18:

This result is important at multiple levels: Firstly, it seems to imply that firms in the Services Sector are the ones most exposed to problems in contract enforcement and dispute resolution. This could be because of the type and number of clients they deal with or the relative price and influence in having contracts enforced. Also, it may also show that the services sector may rely more heavily on less formal mechanisms of contract enforcement and dispute resolution which slows down the process.

Figure 18:

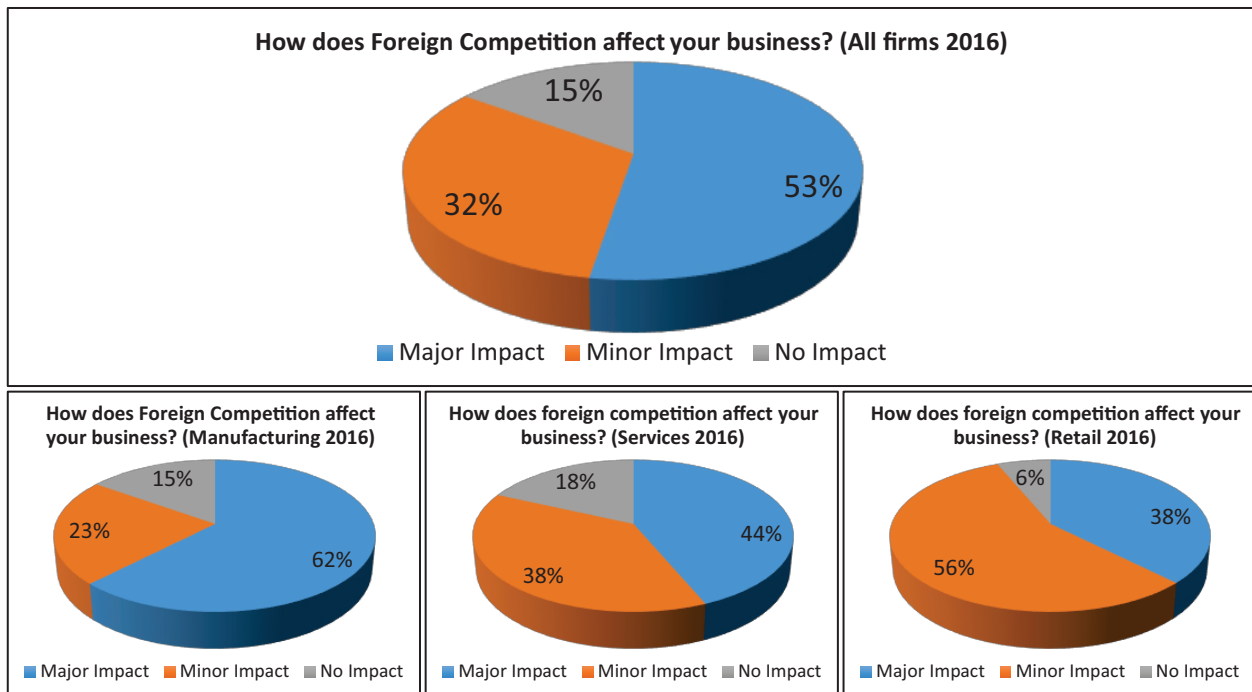


7.5. Foreign Competition

Firms were then asked how foreign competition impacted their business. 53% of the firms consider foreign competition to have a major impact on business, as compared to 47% in the previous year. Foreign competition seems to hold the highest importance for the manufacturing sector as indicated in the previous year as well.

The result of the impact of foreign competition on firm growth shows that firms across all three sectors find it to be significant but not a major obstacle. A point worth noting is that firms in the manufacturing sector, are more likely to be exporters and these are the ones who find foreign competition to be the greatest impediment to growth. These results are illustrated in Figure 19:

Figure 19:

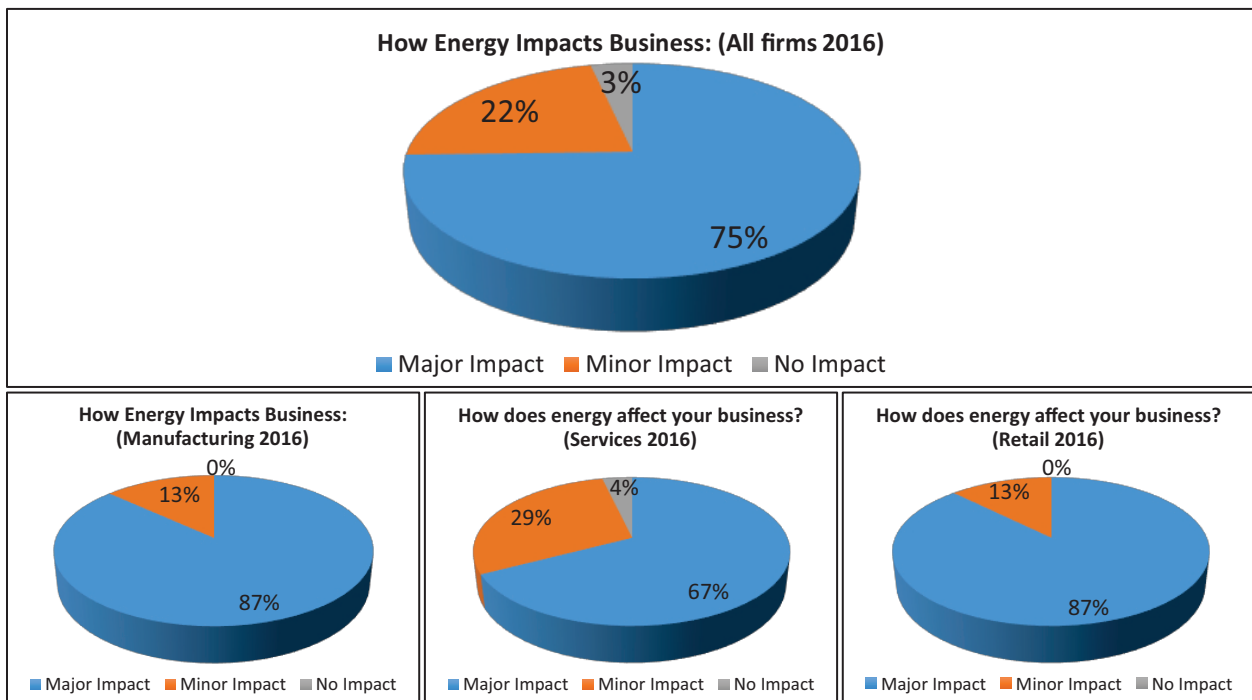


7.6. Energy Shortages

Firms were asked how the energy crisis impacts their business. As expected from the responses last year, the survey responses this year have also pointed out that energy shortages have had the

most significant impact on firm level growth. About 8 out of 10 firms surveyed in the manufacturing and retail sector find this to be the greatest constraint pointing to the urgent need for a coherent and long term solution to the problem. These results are illustrated in Figure 20:

Figure 20:

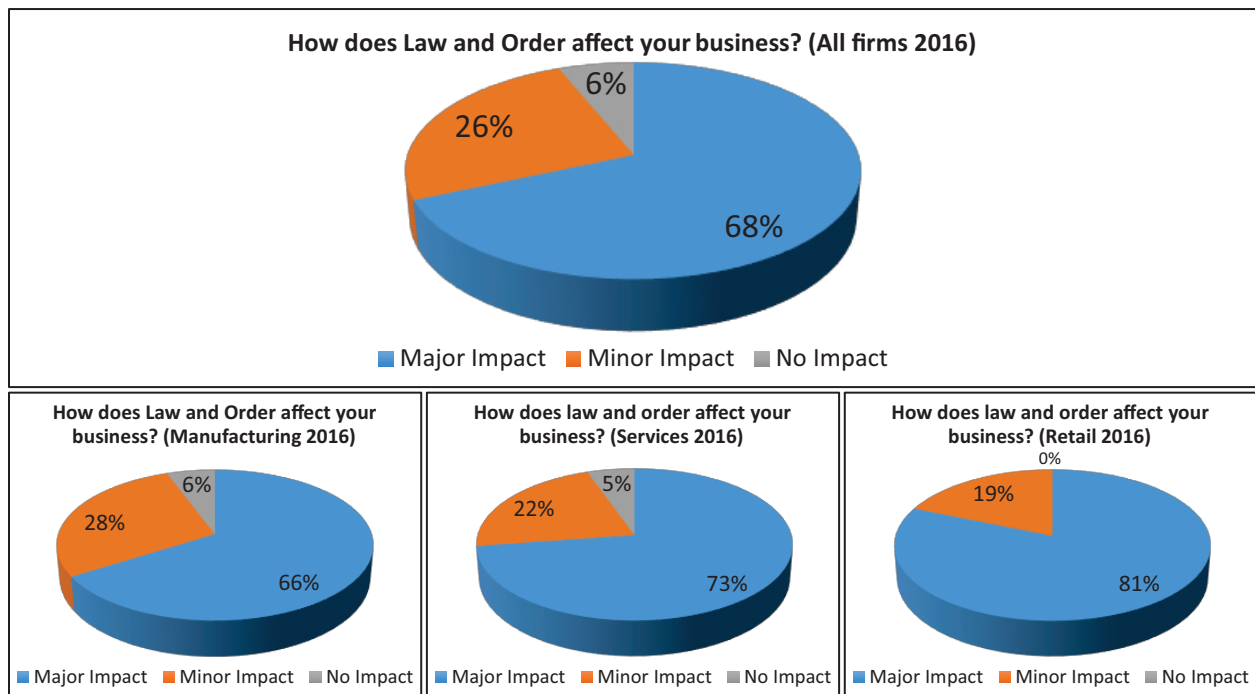


7.7. Law and Order Situation

Firms were also asked about how the law and order situation impacted their business. . As compared to last year, the business community considers law and order to be an increasing concern as 63 % of the firms had reported law and order to be an important concern last year, while this year 68% of the firms consider law and order to have a major impact on business. Law and order seems to be most important for the services and retail sectors, with 73% of the firms in the services sector and 81% of the firms in the retail sector saying that law and order has a major impact on business. These results are illustrated in Figure 21:

Although the result related to energy crisis being a constraint to growth was expected, the survey found that problems of law and order are almost as important to firms as energy shortages. For manufacturing firms that export, law and order problems result in smaller export orders while for local manufacturing and retail firms, law and order problems have both demand and supply side effects. This result means that while the government should focus on a coherent energy policy, it must also develop a strategy to address the law and order problems if firms are to grow.

Figure 21:

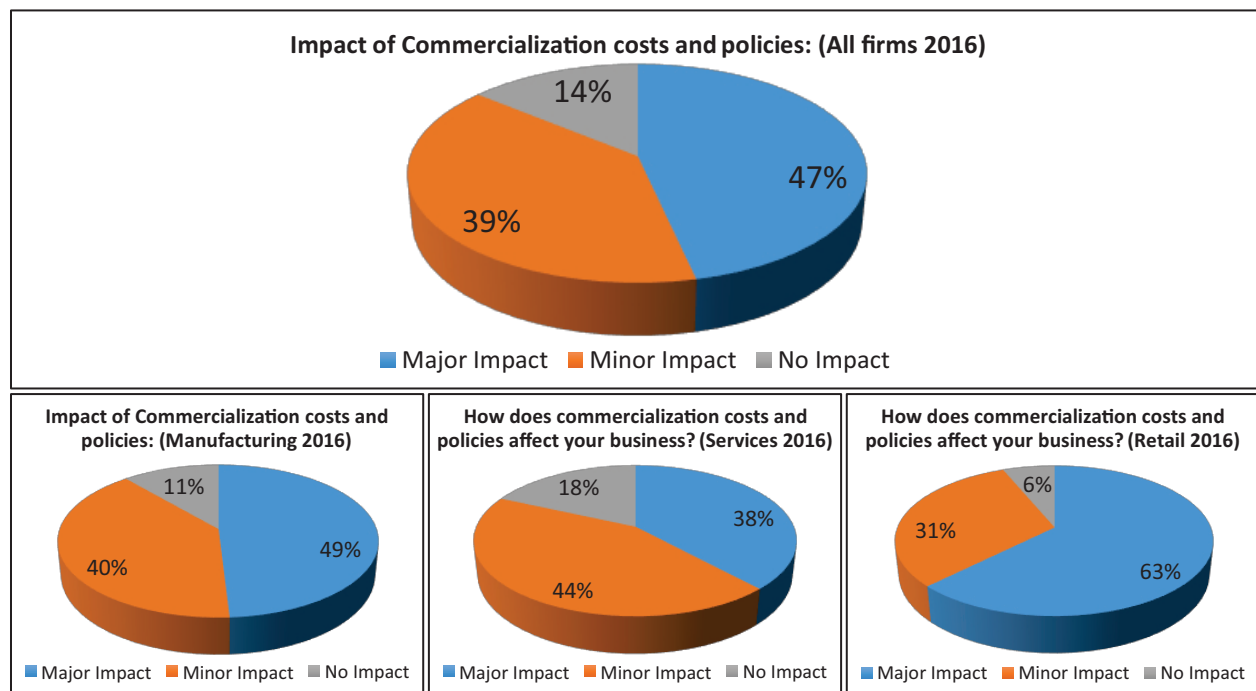


7.8. Provincial Commercialization costs and policies

Firms were asked how commercialization costs and policies impact their business. An interesting finding is that firms in the services and retail sector do not consider commercialization costs and policies to be as major impediment to growth as compared to last year when 73% of retail firms and 54% of firms in the services sector had said that this was a major constraint.

This year 47% of the firms consider commercialization costs and policies to have a major impact on business, and policies related to commercialization costs seem to be a more important factor for firms in the retail sector. 63% of the firms in the retail sector consider it to have a major impact on business, while 49% of the firms in the manufacturing sector consider it to have a major impact on business, and 38% of the firms in the services sector consider it to have a major impact on business. These results are illustrated in Figure 22:

Figure 22:



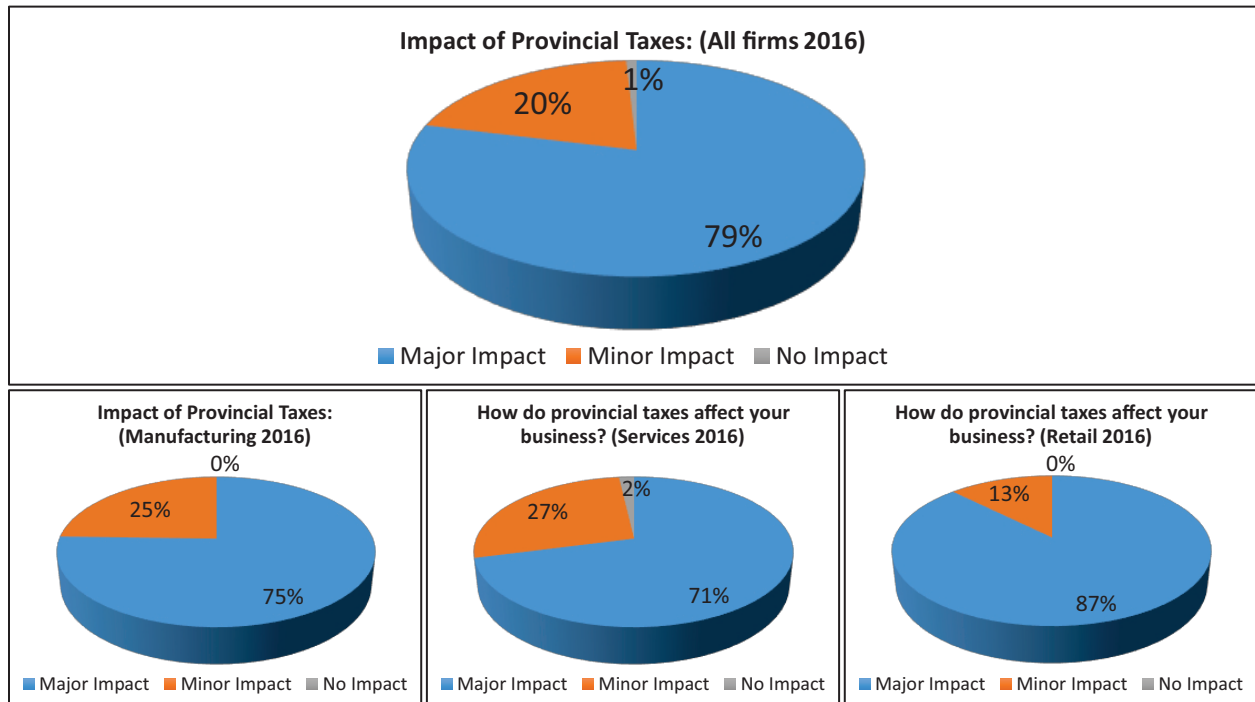
7.9. Provincial Taxes

Firms were also asked about how provincial taxes impact their business. 79% of firms consider provincial taxes to have a major impact on business, while 75% of the firms in the manufacturing sector consider taxes to have a major impact on business, 71% of the services sector firms consider taxes to have a major impact on business, and 87% of the firms in the retail sector consider taxes to have a major impact on business. As compared to last year, provincial taxes has become a more important concern for the manufacturing (where 68% of the firms pointed this out as a major constraint) and retail

sector (where 79% of the firms pointed this out as a major constraint) and services (where 81% of the firms pointed this out as a major constraint). These results are illustrated in Figure 23:

The results of the survey show that 63% of the firms in the retail sector found commercialization costs and policies to be a major impediment. Similarly, more than 60% of the firms found law and order to be a major impediment, while 79% of the firms found provincial taxes to be a problem. This points to a dire and urgent need for provincial authorities to reform both the provincial regulatory and tax system in order to promote firm level growth.

Figure 23:



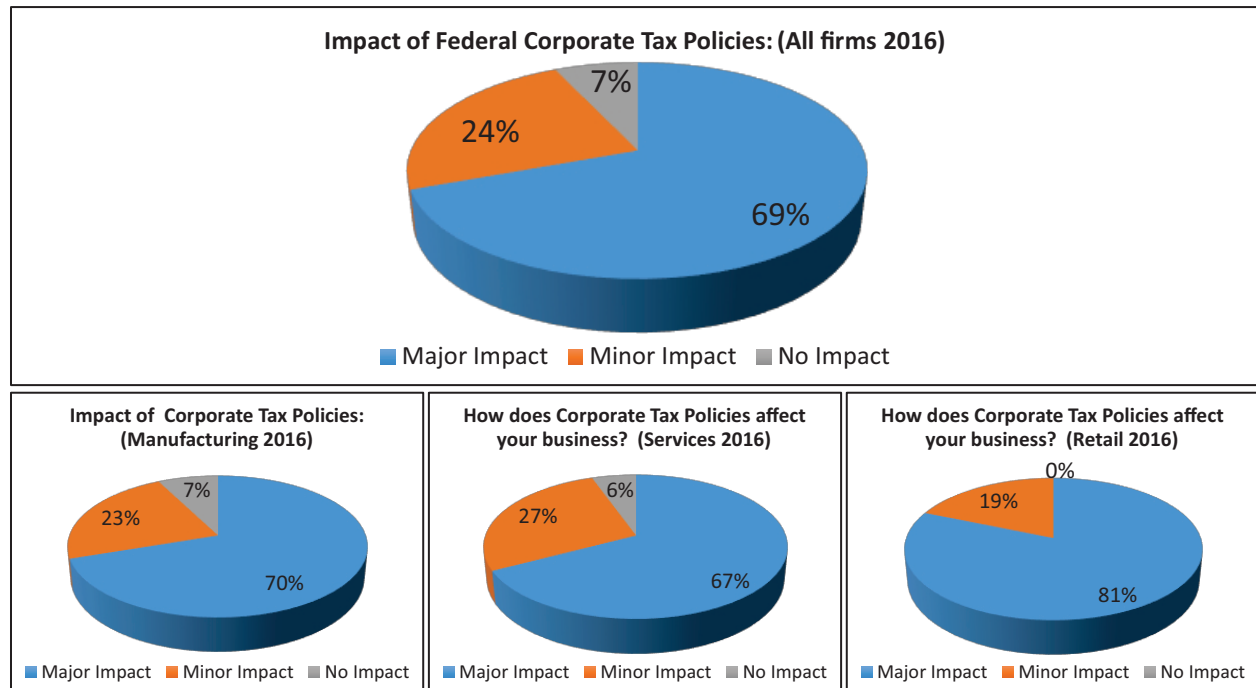
While not shown in these results, other studies have found that it is not the presence of laws, regulations and taxes that firms find problematic, but rather the ad hoc implementation of these which makes them susceptible to corruption and abuse. Greater transparency and accountability even in the present system will help firms effectively deal with the existing structure as opposed to finding it a major impediment to growth.

7.10. Federal Corporate tax policies

Firms were then asked how corporate tax policies impact their business. 69% of the firms consider

it to have a major impact on business, with 70% of firms in the manufacturing sector considering it to have a major impact on business, 67% of firms in the services sector considering it to have a major impact on business, and 81% of firms in the retail sector considering it to have a major impact on business. In the previous year, corporate tax policies seemed to be a more important factor for firms in the manufacturing and services sector than firms in the retail sector, however this year corporate tax policies seem to be of increasing importance to the retail sector as last year since only 61% firms had reported federal corporate tax policies to have a major impact on business. These results are illustrated in Figure 24:

Figure 24:



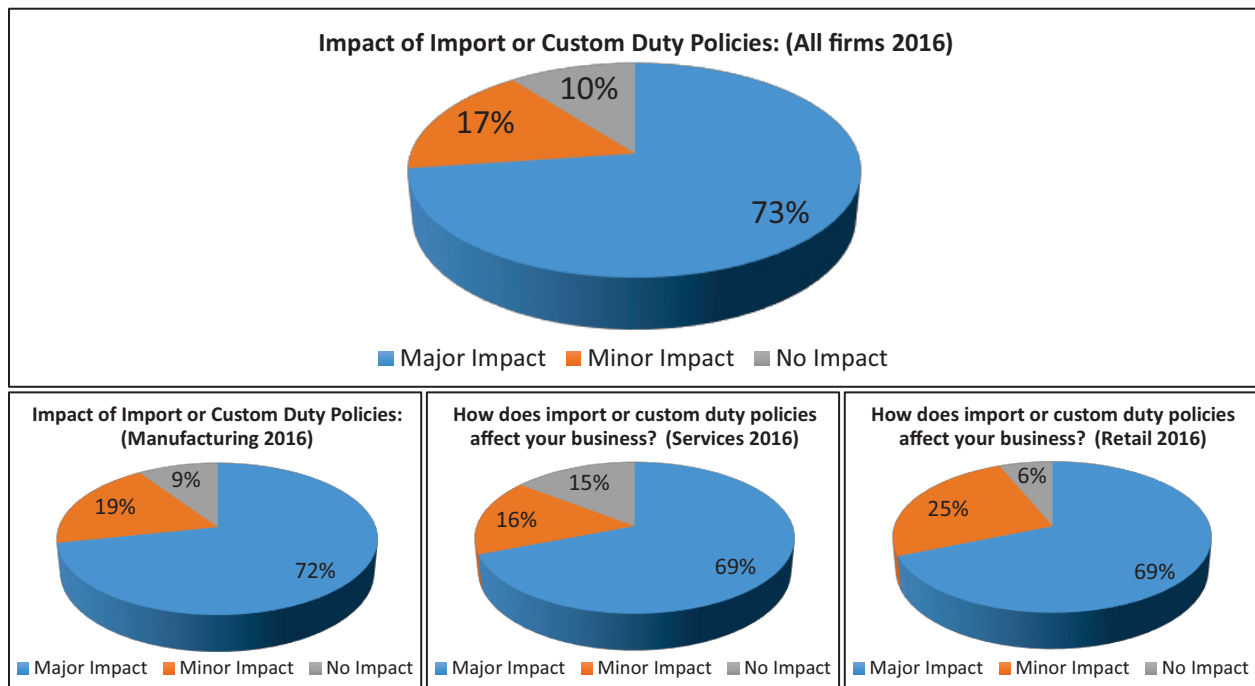
7.11. Import and Custom Duty Policies

Firms were asked how import or custom duty policies impact their business. Last year, 86% of retail firms had reported import or custom duty policies to have a major impact on business however this year only 69% have reported it to have a major impact. At the same time, 73% of the firms consider import or custom duty policies to have a major impact on business, with 72% firms in the manufacturing sector considering it to have a major impact on business, 69% of firms in the services sector considering it to have a major impact on business, and 69% of firms in the retail

sector considering it to have a major impact on business. These results are illustrated in Figure 25.

As found on the provincial level regulations, federally administered policies like corporate tax, income tax and custom duties are found to have a major impact on growth in all sectors. This is probably because of the constantly changing nature of these policies which are susceptible to political nature as well as the firm's aversion to dealing with tax and customs authorities at any level. The lack of monitoring of these policies combined with the inconsistent application of these policies and the slow system of tax refunds has led to firms wanting to avoid any interaction with the tax authorities.

Figure 25:



8. Conclusion

Over the past few years the Pakistani economy has faced a host of challenges and there is a general consensus that economic growth has slowed down significantly. Presently, the Pakistani economy has begun to stabilize and during this time it is critical to develop policies that take into account both the long term economic needs of the country as well as the short term needs of the business community.

The Lahore Chamber of Commerce & Industry and the Lahore School of Economics have recently conducted the second business confidence survey of firms in order to determine industry specific trends as well as the general macroeconomic trends. The survey was conducted with a variety of firms across three sectors, the manufacturing sector, the services sector and the retail sector, and the results from the survey indicate that the optimism expressed by firms in the previous year has to an extent converted into investments in innovation and technology, especially in areas of production.

The survey points out that firms have grown over the last year in terms of sales, investment and size. This is an extremely positive message which points to renewed economic growth in all three sectors covered in the survey. Firms seem to be cautiously optimistic about the future, and have expressed the desire to make further investments in innovation and technology.

The second point that emerges is that firms across all three sectors anticipate higher growth in 2016 and are also planning to increase their investment levels especially related to technology which has further spillover effects on growth. A related point that comes out in the survey is that the firms are extremely concerned about sources of financing and that the banking sector is falling far short of meeting their needs. Though firms are presently expanding based on their own internal sources of funding, the failure of the financial sector to provide adequate capital will be a significant drag on future growth and urgent policies are needed to create ways in which the financial sector can play a more constructive role in economic growth.

Apart from financing investments in innovation and technology, there seems to a wide informational gap

between research/academic and public sector institutions and the industry. Policies need to address and come up with a solution to bridge this gap. The norm among firms is to learn about innovations and technologies from customers, exhibitions, internet and in some cases from suppliers of machinery and trade associations. There seems to be no incentives for firms to invest into indigenous technologies as very few firms learn about new technologies from their own research and development departments. The results also suggest that there are low levels of cooperation among firms, implying that firms do not benefit from technological spillovers from other firms.

Another important result from the survey is that firms feel that there are significant shortages in the pool of skilled labour which is a major constraint to growth. The general feeling amongst the business community is that there has to be a coherent governmental policy to impart vocational training to bridge this growing skill gap.

The firms also pointed to energy shortages as a major constraint on growth, with 8 out of 10 firms saying that this is a significant and persistent problem. At the same time, what was surprising was that almost the same number of firms in the retail found the deterioration in law and order to be a major constraint on growth. This points to the need for a coherent set of policies to not just address the energy crisis but to also address the security related issues affecting firms, which is sometimes ignored.

Finally, firms find both provincial and federal regulations and taxes extremely cumbersome and a significant drag on growth, because of the ad hoc nature of many of the policies, inconsistent application of the policies and because of the lack of transparency of these policies. The business community feels that while regulations and taxes are important, they must take into account the needs and requirements of the business community, since there is an urgent need for closer collaboration between the government and the business community in developing an overall industrial strategy that promotes growth.



**Lahore Chamber of
Commerce & Industry**



**Lahore School of
Economics**

Business Confidence Survey 2016

