

**ITC**  
Innovation and  
Technology Centre



**Lahore Chamber of  
Commerce & Industry**

# Business Confidence Survey 2017



## **ADVISORY BOARD**

**Dr. Shahid Amjad Chaudhry**

Rector: Lahore School of Economics

**Malik Tahir Javaid**

President: Lahore Chamber of Commerce and Industry

**Khawaja Khawar Rashid**

Senior Vice President: Lahore Chamber of Commerce and Industry

**Mr. Zeeshan Khalil**

Vice President: Lahore Chamber of Commerce and Industry

**Dr. Nadia Tahir**

Director R&D: Lahore Chamber of Commerce and Industry

## **AUTHORS**

**Dr. Azam Amjad Chaudhry**

Professor & Dean, Faculty of Economics,  
Lahore School of Economics

**Saman Zahra Khan**

Researcher, Innovation and Technology Centre,  
Lahore School of Economics

# Business Confidence Survey 2017



**ITC**  
Innovation and  
Technology Centre



**Lahore Chamber of  
Commerce & Industry**

©2017 Innovation and Technology Centre  
Lahore School of Economics  
All rights reserved.

First Printing January, 2018.

Lahore School of Economics  
Intersection Main Boulevard, Phase VI, DHA, and Burki Road  
Lahore 53200, Pakistan  
[www.lahoreschoolofeconomics.edu.pk](http://www.lahoreschoolofeconomics.edu.pk)  
Printed by Lahore School of Economics Press

Lahore Chamber of Commerce and Industry  
11 Shahrah Aiwan-e-Sanat-o-Tijarat, Lahore 54000  
[www.lcci.com.pk](http://www.lcci.com.pk)

**Disclaimer**

*All information provided in this report is obtained from sources believed to be reliable. LCCI and Lahore School do not make any representation, warranty or assurance; nor assert that information provided therein is absolutely accurate or complete and it should not be relied upon as such.*

*LCCI, Lahore School and their staff are not responsible for any error of fact, opinion or recommendation and also for any loss, financial or otherwise, resulting from business or trade or speculation conducted, or investments made on the basis of information posted here in this report. Reading this report stipulates that you have also read this disclaimer.*

## Business Confidence Survey 2017

### Contents

Introduction .....	4
1. Analysis of Exporting Firms .....	6
2.1. Analysis of Firm Level Sales .....	14
2.2. Trend Analysis of Revenues from Sales in 2014, 2015 & 2016: .....	18
3.1. Analysis of Investment Levels and Bank Borrowing .....	20
3.2. Trend Analysis of Investment Levels and Bank Borrowing .....	26
4.1. Analysis for the Number of Employees at the Firm Level .....	26
4.2. Trend Analysis of Number of Employees at the Firm Level .....	28
5.1. Analysis of Firm Level Expectations about Pakistan's Economy.....	29
5.2. Trend Analysis of Firm Expectations about Pakistan's Economy .....	30
6. Analysis of Question on the Expectations from CPEC .....	31
7. Analysis of Other Factors Affecting Firms .....	32
7.1. <i>Federal Corporate Tax Policies</i> .....	34
7.2. <i>Provincial Taxes</i> .....	35
7.3. <i>Law and Order Situation</i> .....	36
7.4. <i>Import and Custom Duty Policies</i> .....	37
7.5. <i>Access to Finance</i> .....	38
7.6. <i>Energy Shortages</i> .....	39
7.7. <i>Shortage of Skilled Labour</i> .....	40
7.8. <i>Provincial Commercialization Costs and Policies</i> .....	41
7.9. <i>Foreign Competition</i> .....	42
7.10. <i>Slow or Ineffective Mechanism to Enforce Contracts or Resolve Disputes</i> .....	43
7.11. <i>Economic Recession in the World Markets</i> .....	44
8. Conclusion .....	45



## **Executive Summary**

In March 2015, the Lahore School of Economics and the Lahore Chamber of Commerce & Industry (LCCI) signed a unique Memorandum of Understanding which established a link between academia and the business community. As part of this collaboration, the Innovation and Technology Centre of the Lahore School and the LCCI conducted its third annual business confidence survey in 2017 to understand the perceptions of the business community regarding the prevailing economic conditions with a special emphasis on declining exports. In this year's survey business community was asked about the factors that contributed most to this decline and what steps could be taken to boost exports in the coming years. This year's survey further analyses the expected impact of CPEC on Pakistan's economy in the view of the business community.

The data was collected from 445 firms and 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. Moreover, this year's survey put special emphasis on the export sector by specifically asking exporting firms a separate set of questions. Out of the total respondents, there were 252 exporting firms across all three sectors. The results from the responses shed light on the contributing factors, in the opinion of the exporting firms, that have led to the decline in exports and also what steps could be taken to boost exports in these sectors over the coming years.

Some of the key results from the 2017 Business Confidence survey were:

- A majority of firms said that their revenues from export sales decreased in 2016 as compared to 2015 and a majority of firms, especially from the retail and manufacturing sectors, said that they expect their revenues from export sales to decrease in 2017.
- As compared to last year, a significantly lower number of manufacturing sector firms and retail sector firms said that their export sales increased.
- A significant number of services sector firms said that their export sales increased.
- A majority of firms said that they export only one major product to their main export markets.
- A majority of firms identified changes in exchange rates, domestic energy crises, changes in market preferences and government policies as some of the factors that have major impact on their business.
- A majority of firms said that un-interrupted electricity and gas, lower cost of raw material and labour, revised government policies and increasing access to foreign buyers are the most important factors to boost exports in the country.
- A significant number of firms had positive expectations about the CPEC.

**Lahore School of Economics and Lahore Chamber of Commerce & Industry**  
**Business Confidence Survey 2017**

- A significantly lower number of manufacturing and retail firms said that their revenues from sales were higher during 2016 (as compared to the previous year) only a small percentage of firms are expecting higher sale revenues in 2017.
- A significant number of services sector firms said that their revenues from sales were higher during 2016 (as compared to the previous year) and they also expected sales to be higher in 2017.
- A declining trend in revenues from total sales was found over time based on previous surveys. The sector wise trend found a 20% reduction in revenues from sales in the case of manufacturing sector firms, an 18% reduction in revenues from total sales in the case of the retail sector and a 10% increase in revenues from total sales in the case of services sector firms over this period.
- The trend in revenues from domestic sales was found to be declining over time. The sector wise trend found a 17% reduction in revenues from domestic sales in the case of manufacturing sector firms, a 14% reduction in revenues from domestic sales in case of the retail sector, whereas a 3% increase in revenues from domestic sales in case of services sector firms over this period.
- A very low number of manufacturing and retail sector firms said that their investment increased over the last year and the lowest increase in investment in 2016 came in the retail sector where only 32% of firms were able to increase their investment.
- Firms across all three sectors reported that their increase in investment in 2016 was financed by bank borrowing.
- The trend in investment was found to be declining over time. The sector wise trend found an investment growth going down across all three sectors over this period.
- A majority of manufacturing and retail sector firms are not planning to increase their investment in 2017.
- A majority of firms do not plan to utilize bank borrowing for financing their investment in 2017.
- The trend in bank borrowing by firms was found to be increasing over time. The sector wise trend found an increase in bank borrowing across all three sectors over this period.
- A majority of firms in the manufacturing sector and retail sector firms did not increase their number of employees in 2016 and these sectors seem pessimistic about increasing their employment levels in 2017.
- The trend in employment over time was found to be stagnant. The sector wise trend found a reduction in employment growth for manufacturing sector firms, a reduction in employment growth in the case of retail sector firms and on the other hand an increase in the employment growth for services sector firms over this period.



**Lahore School of Economics and Lahore Chamber of Commerce & Industry**  
**Business Confidence Survey 2017**

- There was significant optimism found when firms were asked about their expectations about Pakistan's economy, with approximately 58% of the firms expecting the economy to do better in 2017.
- Overall firms across all three sectors indicated Federal Corporate Tax Policies (79%), Provincial Taxes (79%), Law and Order Situation (73%), Import and Custom Duty Policies (72%) and Access to Finance (72%) as the most important factors affecting their growth.
- The manufacturing sector firms indicated Federal Tax Policies (79%), Provincial Taxes (79%), Access to Finance (78%), the Law and Order Situation (75%), Energy Shortages (73%) and Import & Custom Duty Policies (73%) as major constraints to their growth.
- The services sector firms indicated Provincial Taxes (78%), Federal Corporate Tax Policies (76%), and Import & Custom Duty Policies (71%) as major constraints to their growth.
- The retail sector firms indicated Federal Corporate Tax Policies (84%), Provincial Taxes (76%), the Law and Order Situation (76%), Access to Finance (75%) and Provincial Commercialization Costs & Policies (71%) as major constraint to their growth.

## **Introduction**

In May 2015, the Lahore School of Economics and Lahore Chamber of Commerce & Industry (LCCI) 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 2016 survey: First, between 2015 and 2016, firms grew in terms of sales, investment and size. Second, firms across all three sectors (manufacturing, retail, services) anticipated higher growth in 2016 and were also planning to increase their investment levels especially related to technology 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 and a large number of retail firms found the deterioration of law and order to be major constraints on growth. Sixth, firms found both provincial and federal regulations and taxes extremely cumbersome and a significant drag on growth. The business community suggested an urgent need for closer collaboration between government and business community in developing and overall industrial strategy that promotes growth.

In 2017, the Lahore School and the LCCI conducted its third Business Confidence survey, in which it asked a variety of firms about the same issues as well as posed questions about the decline in exports. The reason for including questions on exports was to see what are the most factors for this decline and what steps could be taken to boost exports in the coming years. This year's survey further analyses the expected impact of CPEC on Pakistan's economy.

The data was collected from 445 firms and these firms were put into 3 different sectors (manufacturing, services and retail sectors) in order to see the differences in the economic performance across various sectors. There were 229 (51.4%) firms from the manufacturing sector, 133 (30%) from the services sector, 76 (17%) from the retail sector, and 7 (1.5%) firms were from other sectors. The results from the survey shed light on the prevalent economic conditions facing firms in Pakistan as well as the sector specific issues facing the business community.

Following is the brief explanation of these 3 sectors alongwith the major sub-sectors of the respondent firms:

### **Manufacturing Sector:**

Manufacturing is the third largest sector of the Pakistan's economy. The data in the Survey comprised of two sub-sectors, Large Scale Manufacturing (LSM) and Small Scale Manufacturing, with firms from 23 sub-sectors including Textiles, Chemicals and Automobiles.

### **Services Sector:**

The Services sector contributes approximately half of Pakistan's GDP. Most of the surveyed firms under this sector were dealing in Finance and Insurance, Advertising & Marketing,

**Lahore School of Economics and Lahore Chamber of Commerce & Industry**  
**Business Confidence Survey 2017**

Consultancy, Construction, Engineering, Information Technology and Transport etc.

**Retail Sector:**

In order to take into account the small businesses operating in Lahore and surrounding areas, we also analyzed firms that fall under the category of Retailers. Most businesses under this category were Pharmaceutical Shops, Jewelry Shops, Electronic Shops and Garment Shops.

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

- a) Comparison of revenue from total sales in 2015 with 2016
- b) Comparison of revenue from domestic sales in 2015 with 2016
- c) Comparison of revenue from export sales in 2015 with 2016
- d) Expectations of export sales in 2017
- e) Expectations of domestic sales in 2017
- f) Expectations of total sales in 2017
- g) Comparison of bank borrowing in 2015 with 2016
- h) Expectations of bank borrowing in 2017
- i) Comparison of investment in 2015 with 2016
- j) Expectations of investment in 2017
- k) Comparison of number of employees in 2015 with 2016
- l) The impact of factors such as access to finance, law and order, energy, recession in world markets such as the 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) Expectations from the impact of CPEC on Pakistan's economy.
- p) What are the major export market (export destination) of the exporting firms?
- q) How many major products are these firms exporting to the destination markets?
- r) What do the exporting firms think was the most contributing factors for the decline in exports?
- s) What do the exporting firms think would be the most important steps that could boost exports?

The results of the survey are discussed in the sections 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 academic.

## 1. Analysis of Exporting Firms

Pakistan’s trade deficit has increased by 42 per cent as compared to the last fiscal year. The main reason behind this is that exports have declined, while imports have steadily gone up. In order to explain this unprecedented trade deficit, policy makers need to urgently determine what factors have led to the fall in exports and what measures do we need to tackle the deterioration in Pakistan’s trade balance.

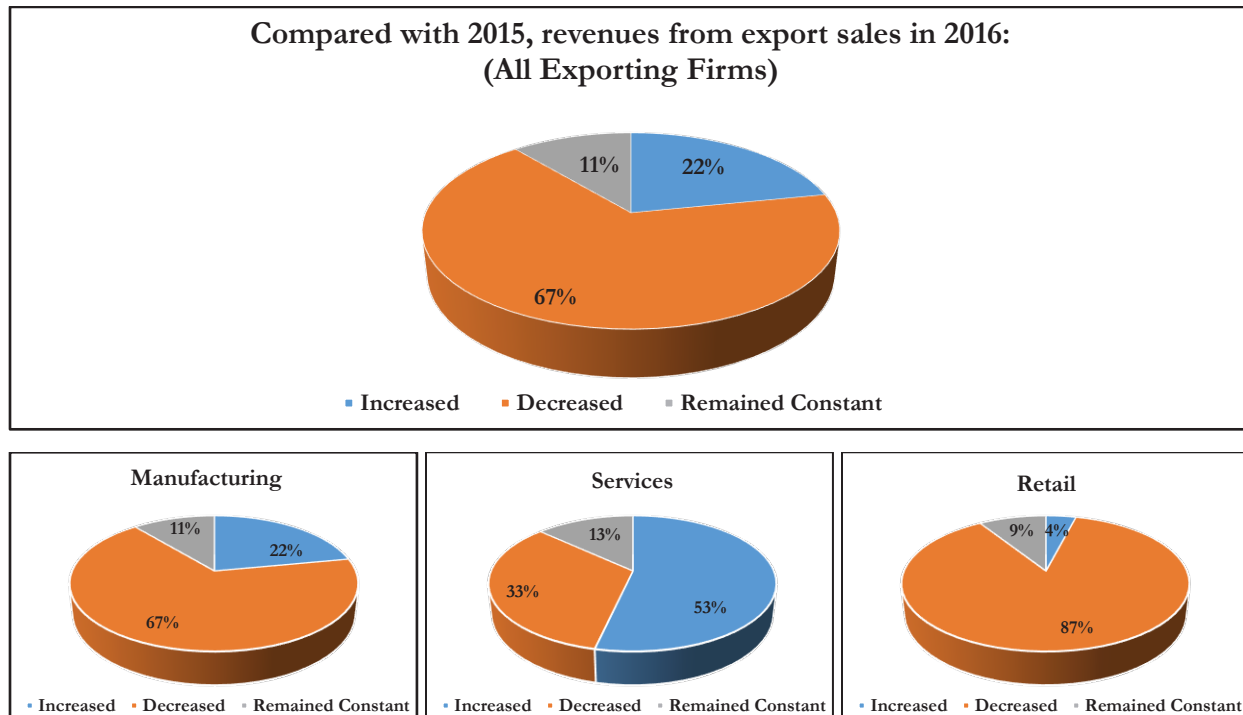
In order to address these factors, the first section of the survey looked at the trends of exports in Pakistan during the last few years, impacts of various contributing factors in this sector, and what steps could be taken with the perspective of exporting firms that could boost exports in the country in the coming years.

In this section, we targeted only those firm which were engaged into exports. The analysis below is

based on the responses from 252 exporting firms including 167 from the manufacturing sector, 30 from the services sector and 53 from the retail sector.

In response to the question asked regarding the comparison of revenues from export sales in 2015 and 2016, a majority of exporting firms (67%) experienced a decrease in revenues from exports between last year and this year, whereas for 11% of firms revenues from exports sales remained the same. The major sectors affected by a decline in exports were the retail sector with 87% of firms experienced a decline in their export sales revenues, and the manufacturing sector with 67% of firms experienced a decline in revenues from export sales. It is interesting to see that the services sector on the other hand reported an increase in their exports sales of up to 53%. The results are illustrated in Figure 1.1.

Figure 1.1:

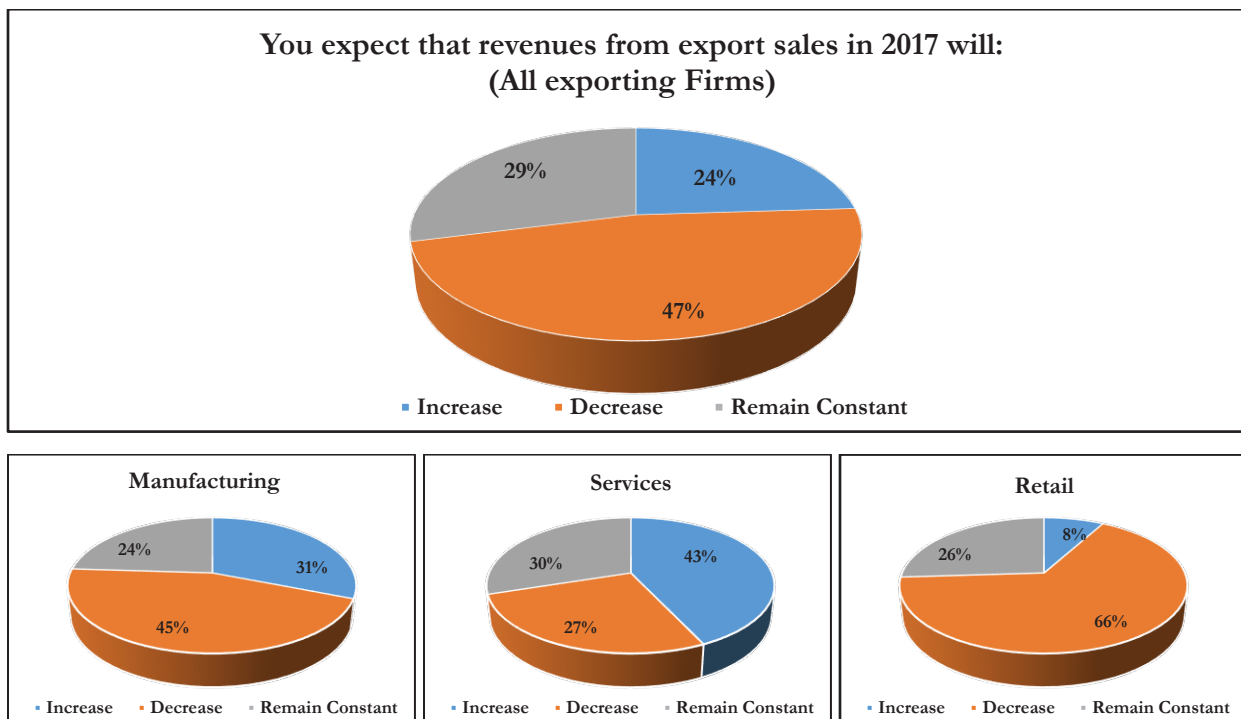


Lahore School of Economics and Lahore Chamber of Commerce & Industry  
 Business Confidence Survey 2017

When asked about the expectations about revenues from export sales in 2017, most firms said that they expect their revenues from export sales to decrease over the current year. Looking across sectors, only 8% of the retail sector firms expect their revenues from export sales to increase in 2017. At the same time, only 31% of

manufacturing sector firms expected exports to increase. Whereas a greater percentage of 43% firms from the services sector said that they are expecting their revenues from export sales to increase in 2017 pointing to the fact that service sector exports may drive future export growth. These results are illustrated in Figure 1.2.

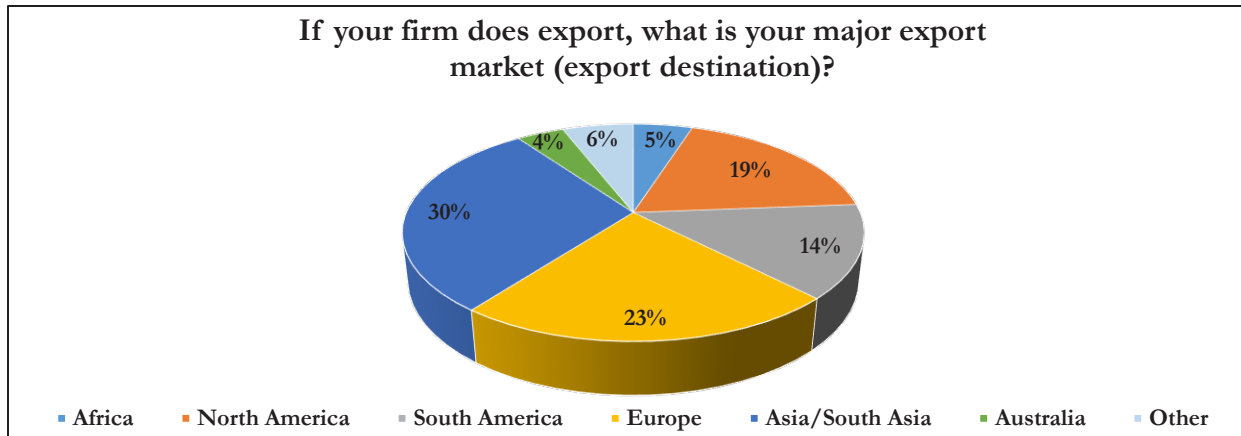
Figure 1.2:



In response to a question on the destination exports market, 30% of exporting firms reported Asia/South Asia as their destination market for exports, 23% reported Europe as their

destination market, 19% export their products to North America, 5% export to Africa and 4% export to Australia (Figure 1.3).

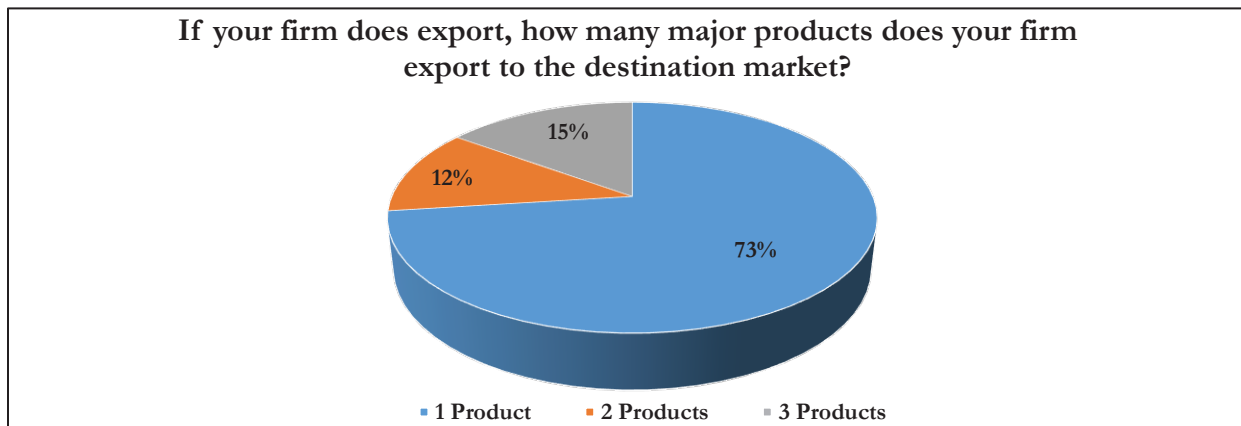
Figure 1.3:



In response to question on how many major products these firms have been exporting to their destination markets, a significant majority (73%) of firms were exporting only 1 major product, whereas 15% and 12% were exporting 3 and 2 products to their destination markets

respectively (Figure 1.4). This strongly implies that firms in collaboration with the government need to expand their product base and explore newer markets for their products to increase their market shares in the international markets.

Figure 1.4:



**Lahore School of Economics and Lahore Chamber of Commerce & Industry**  
**Business Confidence Survey 2017**

The exporting firms were also asked that if they had experienced a decline in their export sales during 2016 then what they considered as the most contributing factors for that decline.

A significant percentage of firms identified Changes in Exchange Rates (68%), Domestic

Energy Crises (68%), and Changes in Market preferences (67%) as the major factors that had contributed most to the decline in exports in 2016. The following table (Table 1.1) lists the factors in descending order in terms of relative importance given by the respondent firms:

**Table 1.1: Most Contributing Factors Which Caused Decline in Exports**

Sr. #	Factors	Relative Importance in terms of percentage of exporting firms finding a major impact
1	Changes in Exchange Rates	68%
2	Domestic Energy Crises	68%
3	Changes in Market Preferences	67%
4	Government Policies	62%
5	Global Competition in the International Markets	61%
6	Domestic Cost of Production	60%
7	Fluctuations in Commodity Prices	57%
8	Availability of Skilled Labour	55%
9	Changes in Global Demand	54%

Firms were also asked questions on the major contributing factors which had an impact on their export business.

In response to question about the impact of changes in exchange rates on their export businesses, a high percentage of firms (68%) considered it to have a major impact, 25% considered it to have a minor impact and only a small percentage of 7% of firms remained unaffected due to changes in exchange rates. The results are presented in Figure 1.5a.

A very significant percentage (68%) of firms reported that the domestic energy crises had a major impact on their businesses, 19% of firms reported domestic energy having a minor impact and 13% were not affected by domestic energy. The results are illustrated in Figure 1.5b.

A significant number of exporting firms (67%) reported changes in market preferences as having a major impact, whereas 18% said it had a minor impact and 15% firms did not consider it a contributing factor to the decline in exports (Figure 1.5c).

In response to question on the impact of government policies, 62% of the exporting firms said that government policies have had major impact on their businesses, 19% of firms said that government policies have had minor impact and 19% of firms said that government policies have no impact on their businesses. The results are presented in Figure 1.5d.

In response to the question on the impact of global competition in international markets, 61% of exporting firms said it had a major impact,

24% said it had a minor impact and a small percentage (15%) firms said it had no impact. (Figure 1.5e).

When asked about domestic cost of production, 60% of firms reported that the domestic cost of production had major impact, 24% reported that it had a minor impact and 16% reported that domestic cost of production had no impact on their businesses (Figure 1.5f).

When firms were asked about the impact of fluctuations in commodity prices on their businesses, a majority of firms (57%) considered it to have a major impact, whereas 30% and 13% considered fluctuations in commodity prices to have a minor impact and no impact on their businesses respectively (Figure 1.5g).

A relatively smaller percentage of firms (as compared to other factors) considered the availability of skilled labour as having had a major impact on their businesses. On replying to the question, 55% of firms said that there was a major impact, 25% said that there was a minor impact, and 20% of firms remained unaffected by the availability of skilled labor (Figure 1.5h).

Finally, a majority of firms considered changes in global demand as having a major impact on their export business. 54% of firms reported it having a major impact, 25% reported that it had a minor impact and 21% reported that it had no impact (Figure 1.5i).

Figure 1.5a:

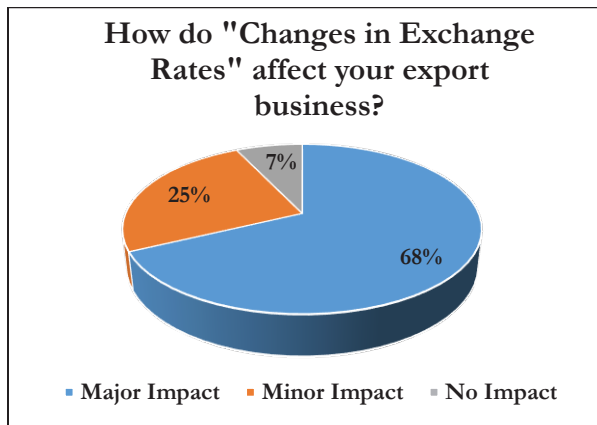


Figure 1.5c:

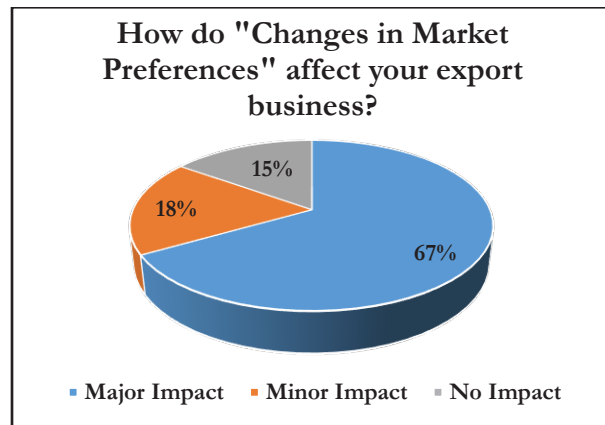


Figure 1.5b:

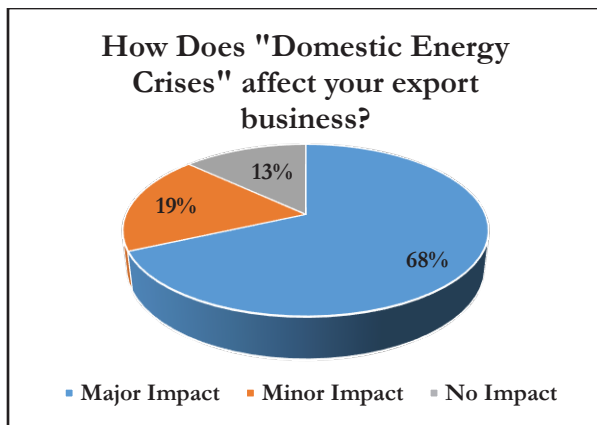


Figure 1.5d:

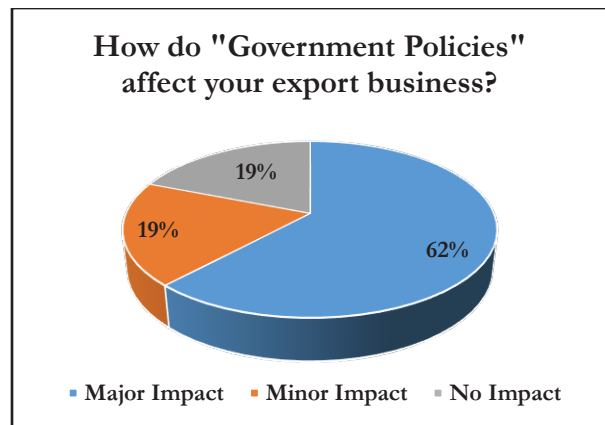




Figure 1.5e:



Figure 1.5h:

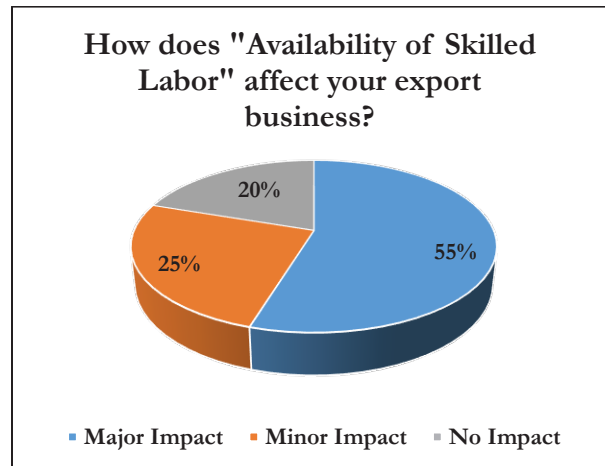


Figure 1.5f:

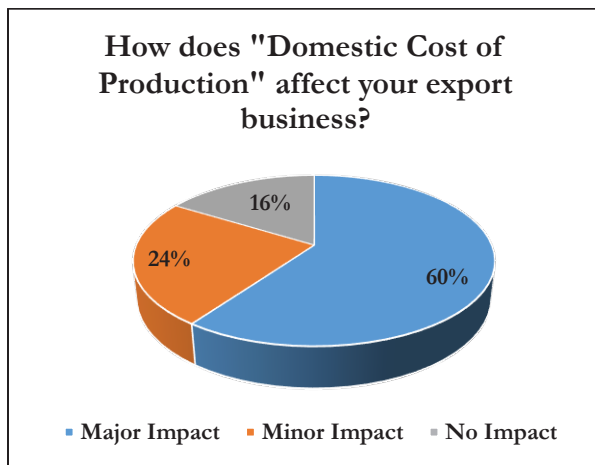


Figure 1.5i:

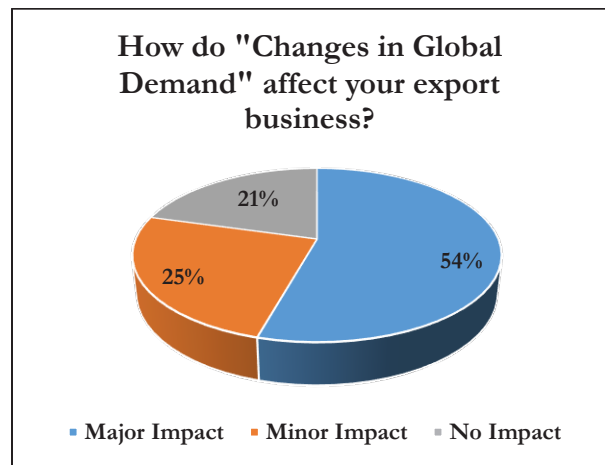
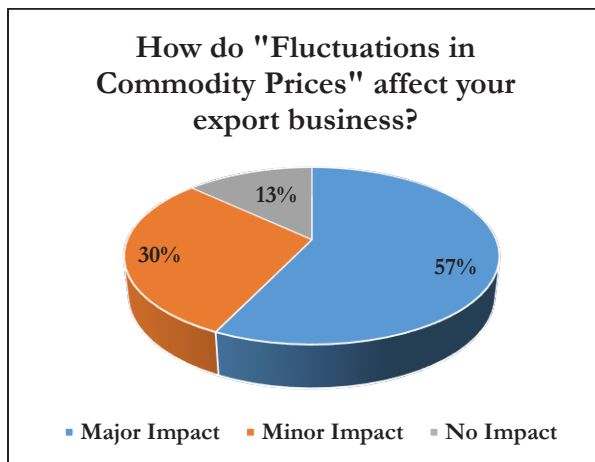


Figure 1.5g:



**Lahore School of Economics and Lahore Chamber of Commerce & Industry  
Business Confidence Survey 2017**

In the last section designated for exporters, the exporting firms were asked about their opinion on some important steps that would have a major positive impact on their business. The firms identified Un-interrupted Electricity and Gas (68%), Lower Cost of Raw Materials & Labour

(65%), Revising Present Government Policies (63%) and Increasing Access to Foreign Buyers (63%) as some of the most important steps that could boost exports. The results are illustrated Table 1.2 in descending order of importance assigned by the respondent firms:

**Table 1.2: Most Important Steps that could Boost Exports:**

Sr. #	Factors	Relative Importance in terms of percentage of firms finding a major impact
1	Un-interrupted Electricity and Gas	68%
2	Lower Cost of Raw Materials & Labour	65%
3	Revising Present Government Policies	63%
4	Increasing Access to Foreign Buyers	63%
5	Introducing New Products & Services	55%
6	Devaluing Pakistani Rupees	52%

The firms were also asked about their opinion on some important steps if taken would have an impact on their business. These questions were included to identify most important steps, in the view of exporting firms that could tackle the problem of declining exports in the country and could boost exports in the coming financial years.

63% of firms also said that revised government tax policies would have major impact on their businesses, 31% reported that it would have a minor impact on their businesses and 6% reported that they would have no impact with the change in government tax policies. Results are presented in Figure 1.6c.

When asked about their view on the impact of Un- interrupted Electricity and Gas would have on their business, a significant percentage of firms (68%) replied that it would have a major impact on their businesses, 23% replied it would have minor impact and only a smaller percentage of 9% replied that they would remain unaffected. These results are illustrated in Figure 1.6a.

Another important step that could boost exports is increasing access to foreign buyers as 63% firms reported that it would have a major impact, 29% reported it would have a minor impact and only 7% reported that their businesses would remained un-affected by this factor. These results are illustrated in Figure 1.6d.

Lower cost of raw materials and labour was also reported as a major factor, with 65% firms said it would have a major impact, 28% said it would have a minor impact and only 7% considered it would have no impact on their businesses. Results presented in Figure 1.6b.

In response to question on the impact of introducing new products and services would have on their export businesses, 55% thought that it would have a major impact on their businesses, 34% of firms thought that it would have a minor impact, whereas 11% replied that it would not have any impact if they introduce new products and services. These results are illustrated in Figure 1.6e.

When asked about the impact of devaluing Pakistani rupees would have on their businesses, 52% of firms replied that it would have a major impact, 40% of firms replied that it would have a

minor impact and 8% said that it would have no impact on their businesses. These results are presented in Figure 1.6f.

Figure 1.6a:

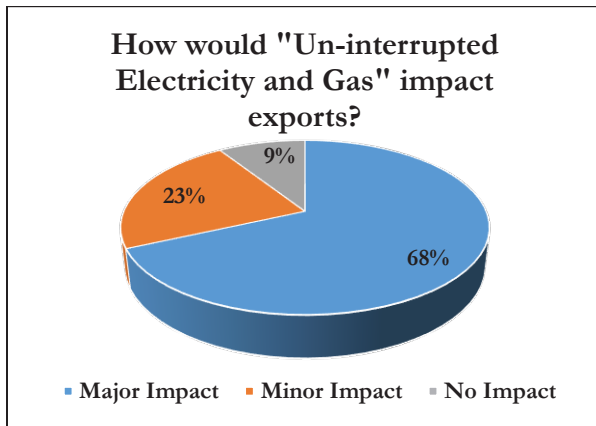


Figure 1.6d:

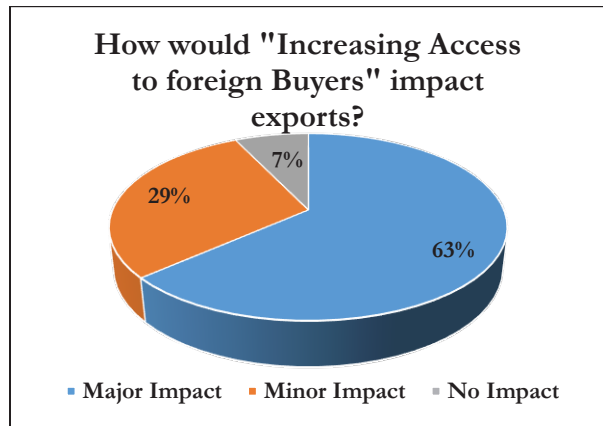


Figure 1.6b:

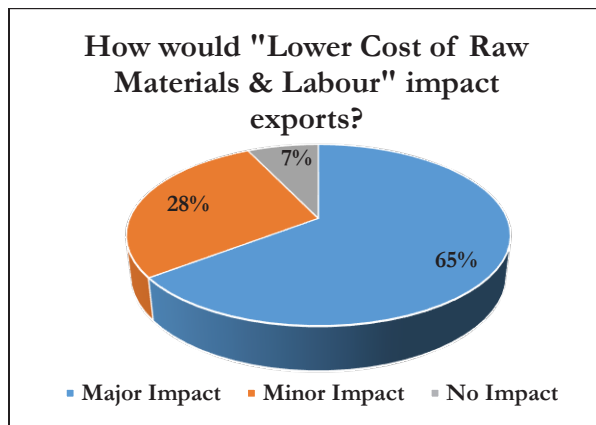


Figure 1.6e:

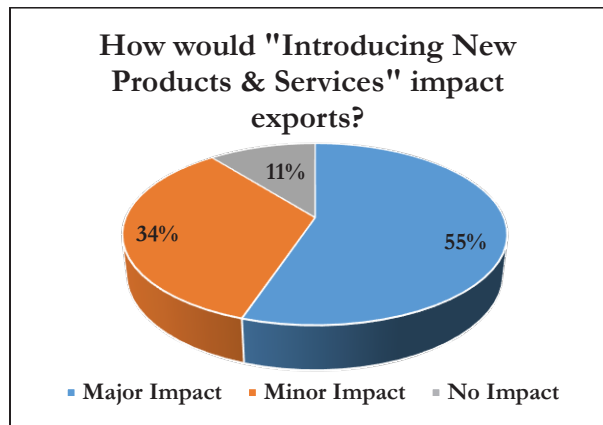


Figure 1.6c:

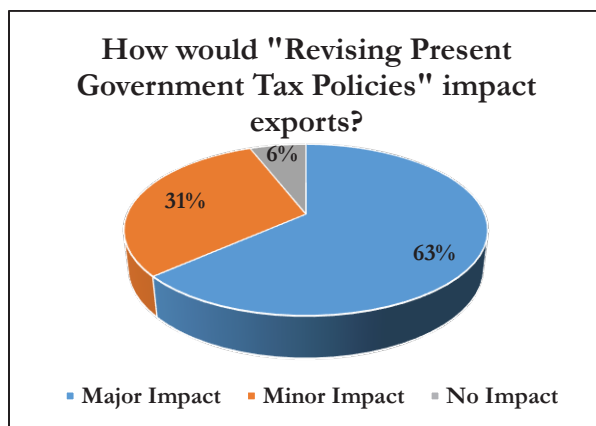
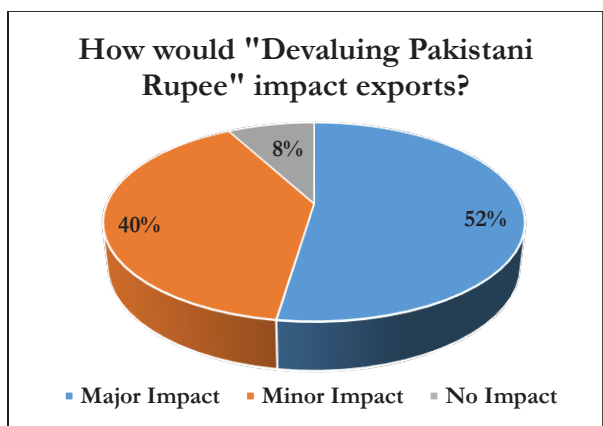


Figure 1.6f:



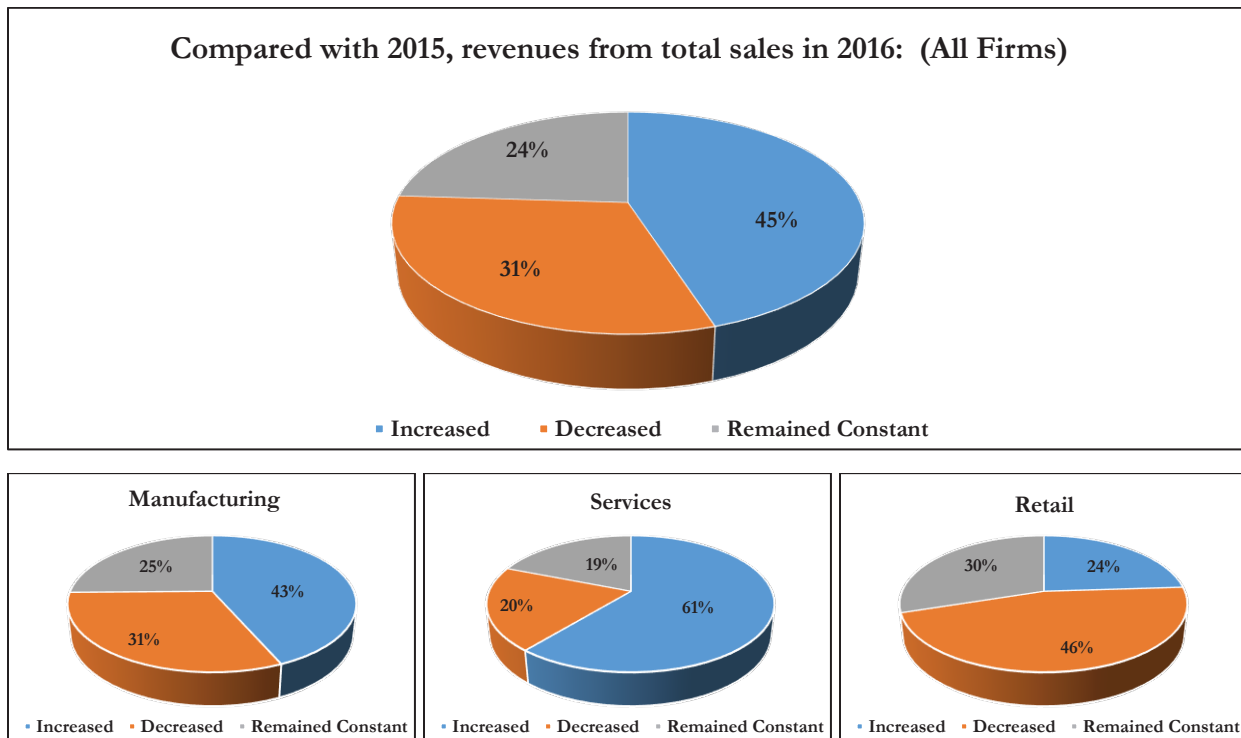
### 2.1. Analysis of Firm Level Sales

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

The comparison of revenues from total sales between this year and last year revealed that growth in overall revenues from total sales has decreased since last year 49% of firms had reported an increase in revenues from total sales, whereas this year only 45% of firms have reported an increase in revenues from total sales. The manufacturing sector seems to have been most affected by a decrease in growth of

revenues from total sales since 61% of manufacturing firms reported an increase in revenues from total sales last year whereas only 43% of manufacturing firms have reported an increase in revenues from total sales in the current year. Similarly, last year 31% of retail firms had reported an increase in revenues from total sales whereas this year only 24% of retail firms experienced an increase in their revenues from total sales. On the other hand, it is interesting to note that 10% more firms from the services sector have reported an increase in their revenues from total sales in this year, with 61% of firms reporting an increase in total sales this year as compared to 51% of firms in the previous year. These results are illustrated in Figure 2.1.

Figure 2.1:

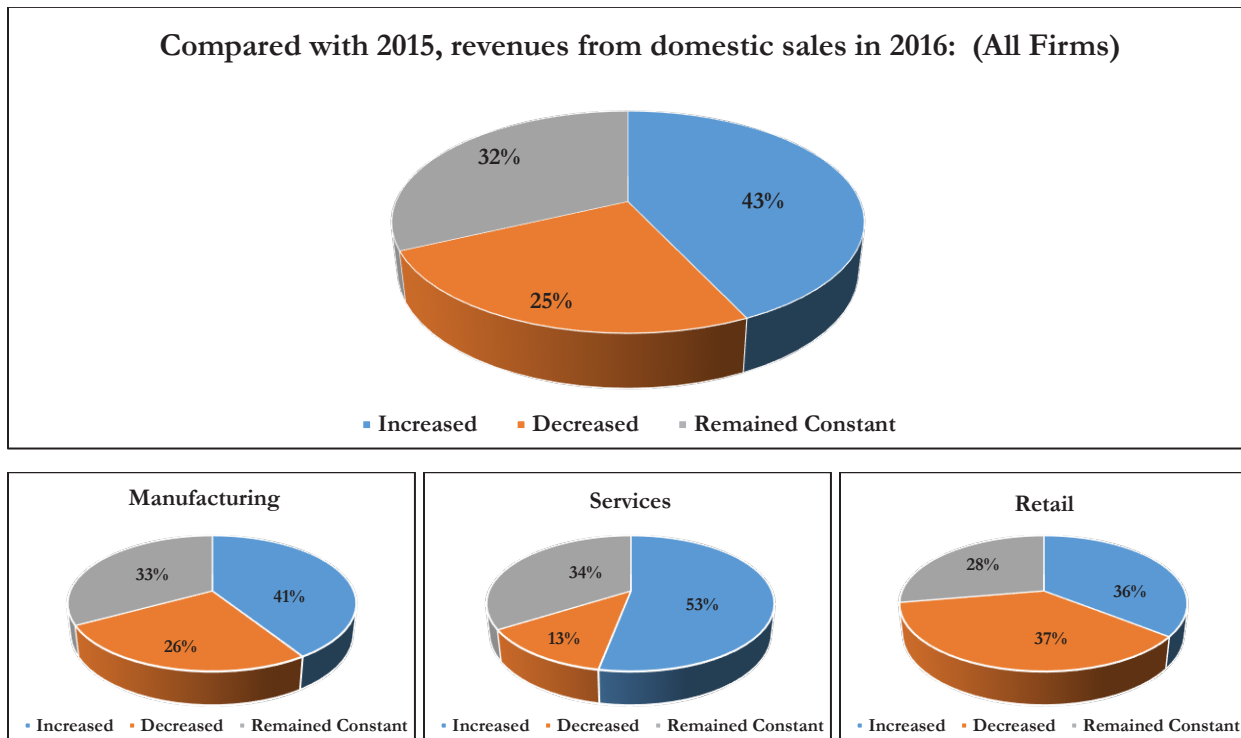


**Lahore School of Economics and Lahore Chamber of Commerce & Industry  
Business Confidence Survey 2017**

This year's survey also asked about revenues from sales in 2016 as compared to 2015, for domestically targeted output. Overall, there seem to have been a slowdown in terms of growth in domestic sales since 43% of all firms reporting said that their revenues from domestic sales had increased in this year as compared to a larger percentage of 58% of firms reporting an increase in their revenues from domestic sales in the previous year. Firms in the manufacturing sector seem to have been the most affected as only 41% of firms reported an increase in their revenues from domestic sales this year as compared to 58%

of firms who reported an increase in revenues from domestic sales in the previous year. Similarly, the retail firms were also affected, with 36% firms have reported an increase in this year as compared to 50% in the previous year. On the other hand, the services sector firms have experienced higher growth in their revenues from domestic sales, with a larger percentage of firms saying that their revenues from domestic sales increases in this year as compared to the previous year which is a positive economic indicator. These results are illustrated in Figure 2.2.

**Figure 2.2:**

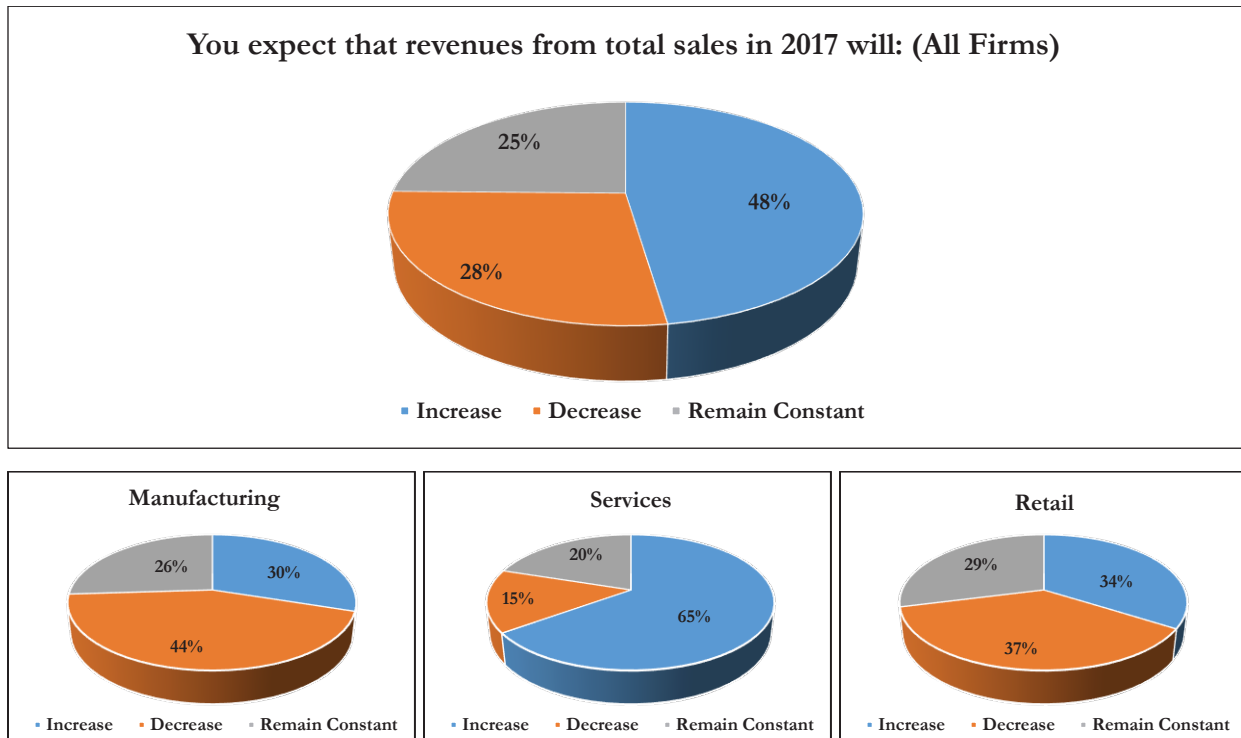


Lahore School of Economics and Lahore Chamber of Commerce & Industry  
Business Confidence Survey 2017

The second part of the sales analysis focused on expectations about sales in 2017. The results revealed that across all three sectors, firms were less optimistic about total sales in the current year as compared to the last year. This year, only 48%

of firms expect higher revenues from total sales as compared to 67% of firms in the previous year. The main reason behind these lower expectations could be the decline in exports. These results are illustrated in Figure 2.3.

Figure 2.3:

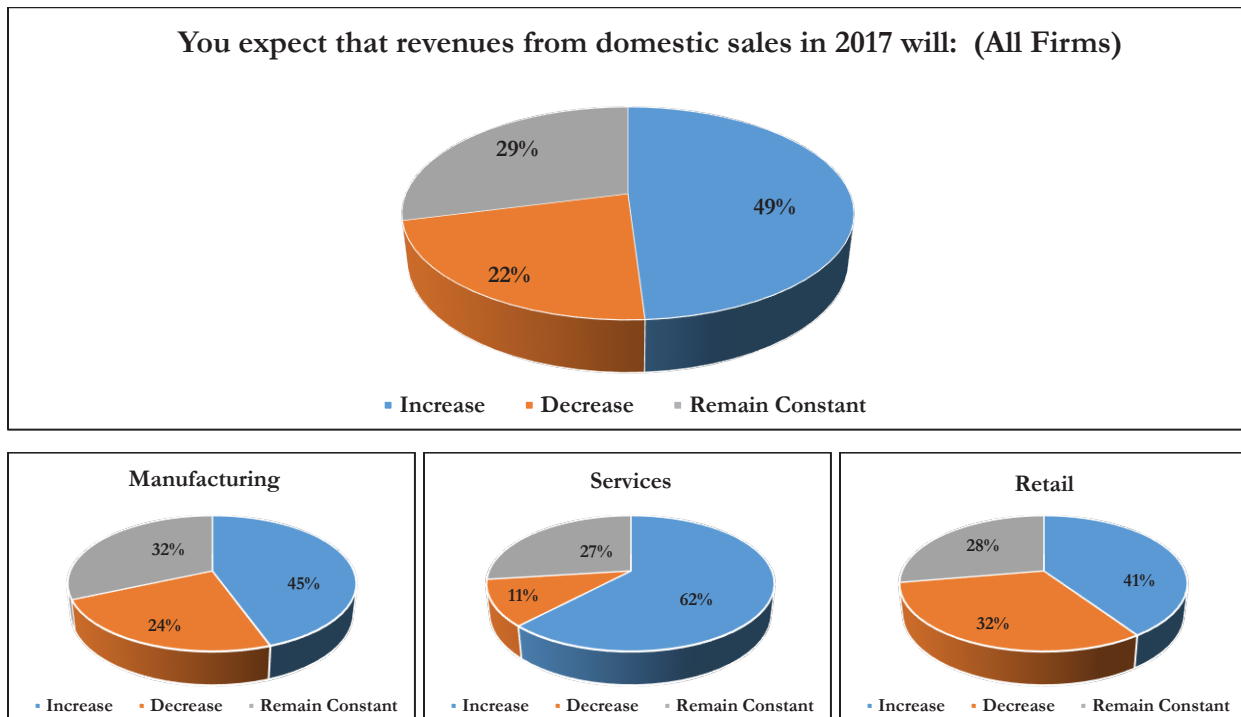


Lahore School of Economics and Lahore Chamber of Commerce & Industry  
 Business Confidence Survey 2017

As compared to last year, overall expectations of revenues about domestic sales are lower, though a slightly higher percentage of firms in the services sector seems to expect more revenues from domestic sales (62% as

compared to 58%) the previous year. In particular, both manufacturing and retail firms were not very optimistic about higher sales revenues over the coming year. These results are illustrated in Figure 2.4.

Figure 2.4:



## 2.2. Trend Analysis of Revenues from Sales in 2014, 2015 & 2016:

A trend analysis of revenues from total sales in 2014, 2015 and 2016 was done based on the last three business confidence reports. This was done to compare growth in revenues from sales for manufacturing, services and retail firms over time.

### Trend Analysis of Revenues from Total Sales:

The trend analysis of all firms, who experienced an increase in revenues from total sales, showed that there is a decline in the percentage of firms reporting higher sales growth. In 2014, revenues increased for 62% of firms, while in 2015 there was a sharp decline (to 49%) in the number of firms expecting sales growth, and the revenues from sales

grew for a smaller percentage of firms (45%) in 2016. The results are illustrated in Figure 2.5a.

The trend analysis of growth in revenues from total sales across sectors revealed that the manufacturing sector was the most affected by slowdown in growth as there is 20% decline in the number of firms who experienced higher growth in sales over this period. The retail sector also experienced a 18% decline in the number of firms with higher revenues from total sales over this period. However, it is interesting to note that services sector has experienced a 10% increase in the number of firms with higher revenues. These results are illustrated in Figures 2.5b, 2.5c & 2.5d.

Figure 2.5a:

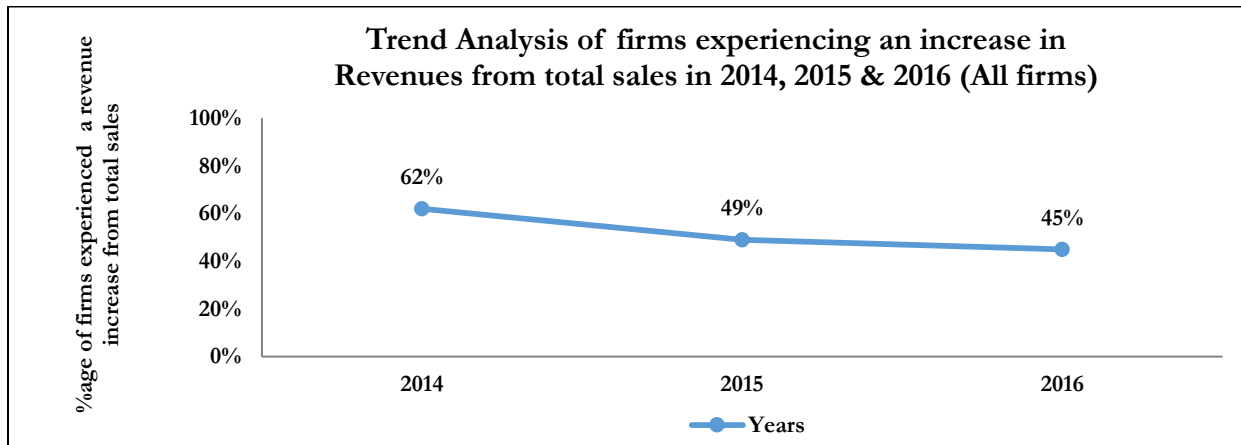


Figure 2.5b:

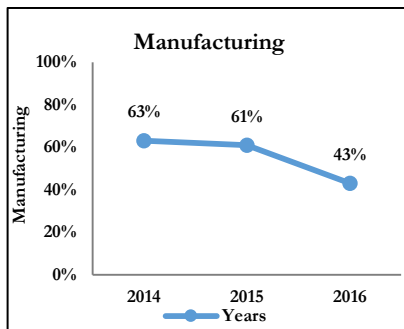


Figure 2.5c:

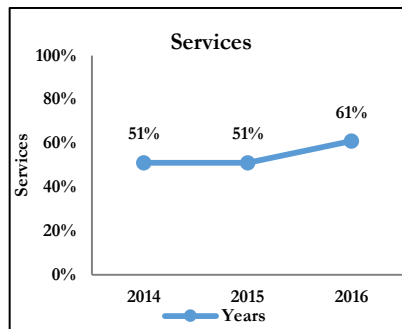
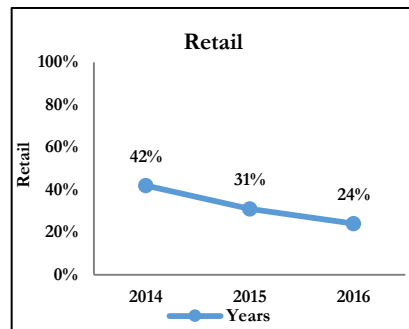


Figure 2.5d:



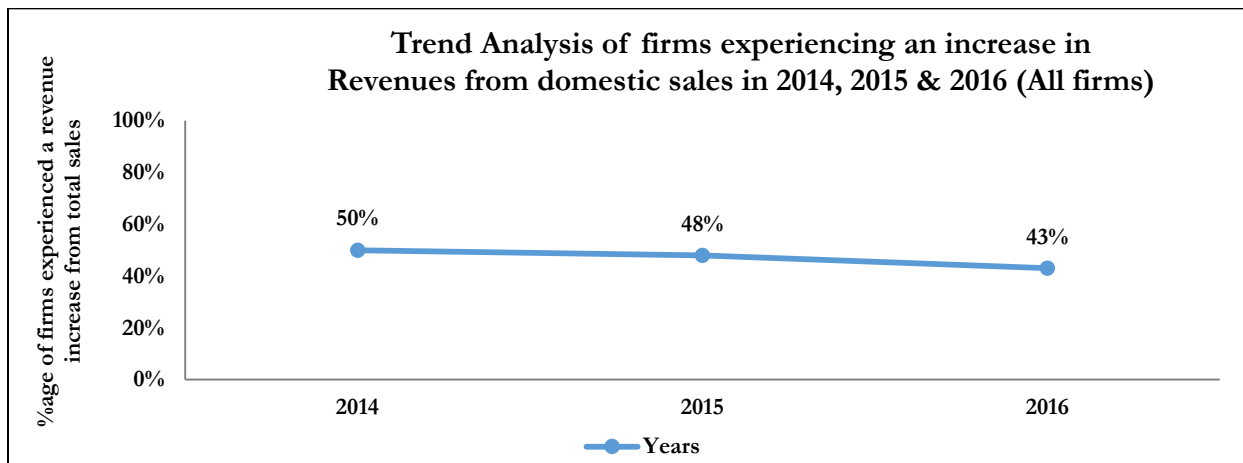


**Trend Analysis of Revenues from Domestic Sales:**

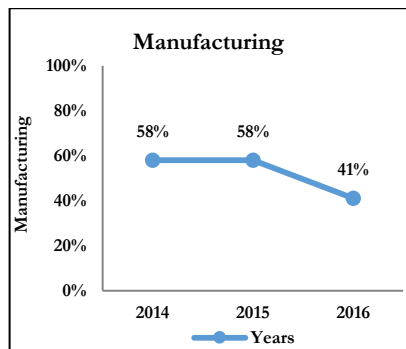
Trend analysis of growth in revenues from domestic sales revealed that there is a decline in revenues from domestic sales since the number of firms saying that revenues increased have gone down from 50% in 2014 to 48% in 2015 and to 43% in 2016. However, the sector-wise trend analysis of growth in domestic sales across all three sectors revealed that there is a declining trend in the case of the manufacturing and the retail sector firms and an increasing trend in the case of the services sector firms. The results showed that only 41% of the manufacturing firms said that their domestic sales revenues increased

this year as compared to 58% of firms which said that their domestic sales revenues increased in the previous year. Similarly, only 36% retail firm said that their domestic sales revenues increased this year as compared to 50% of firms said that their domestic sales revenues increased in the previous year. On the other side, the services sector firms experienced an increase in number of saying their domestic sales revenues increased as compared to the number of firms who said that their domestic sales revenues increased in the previous year. These results are illustrated in Figures 2.6a, 2.6b, 2.6c and 2.6d.

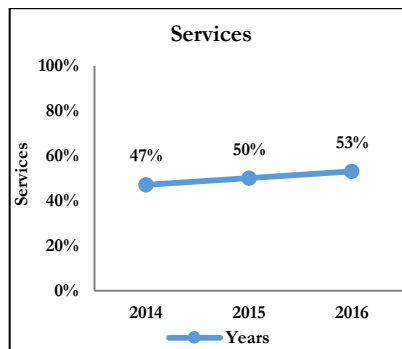
**Figure 2.6a:**



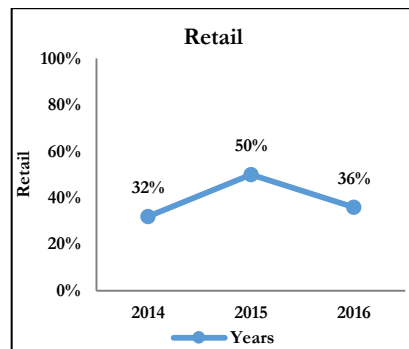
**Figure 2.6b:**



**Figure 2.6c:**



**Figure 2.6d:**

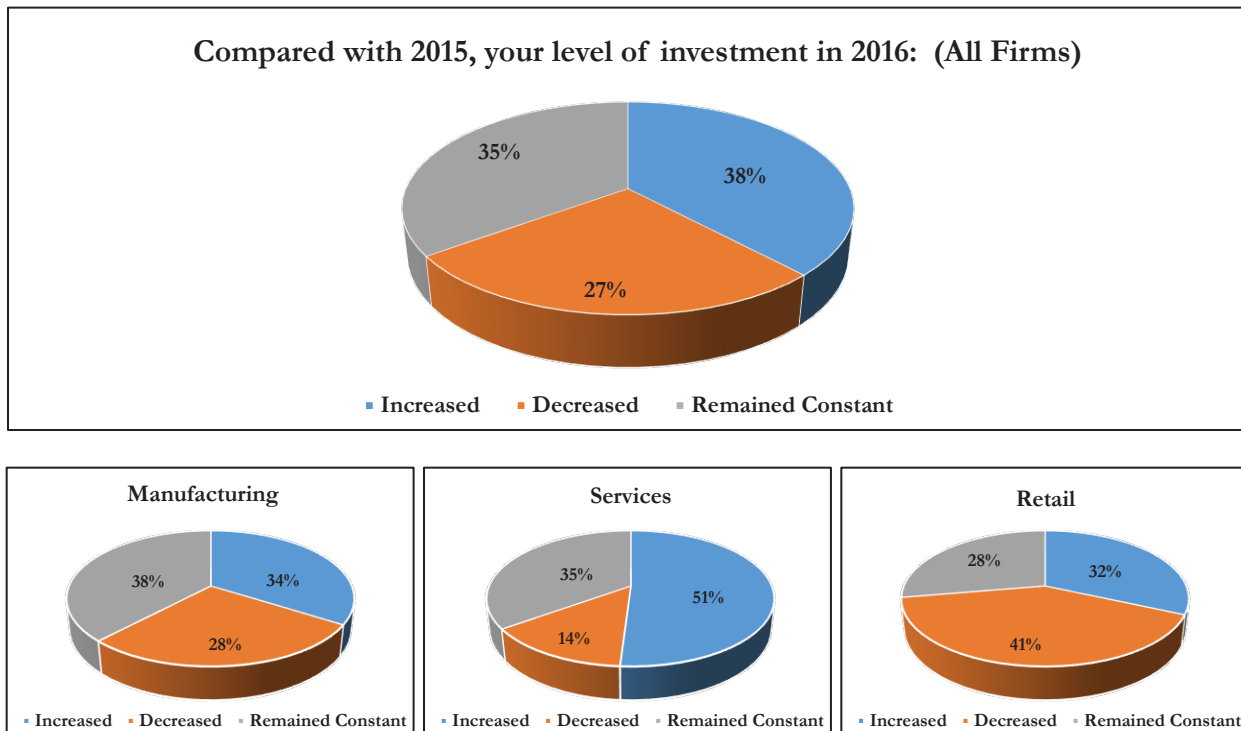


### 3.1. Analysis of Investment Levels and Bank Borrowing

In the fourth section of the survey, firms were asked to compare their level of investment in 2015 with 2016 alongside expectations about investment in 2017. This year's survey results showed a slowdown in the level of investment by firms and an increase in bank borrowing as compared to last year's survey results. The survey showed that the largest slowdown in investment in 2016 came in the manufacturing sector as only 34% of firms reported that they had increased their level of investment this year as compared to 75% firms who reported higher investment in the previous year. Also, 28% of the manufacturing sector firms reported that their

level of investment decreased in 2016 as compared to only 4% of firms in the previous year. Similarly, the retail sector firms experienced a slowdown in their level of investment as compared to previous year. Only 32% of firms from this sector reported increase in their level of investment in 2016 as compared to 55% firms in 2015, whereas 41% of firms reported that they decreased their level of investment in 2016 as compared to 17% firms in the previous year. However, services sector firms showed almost the same level of investment as compared to last year. These results are illustrated in Figure 3.1.

Figure 3.1:

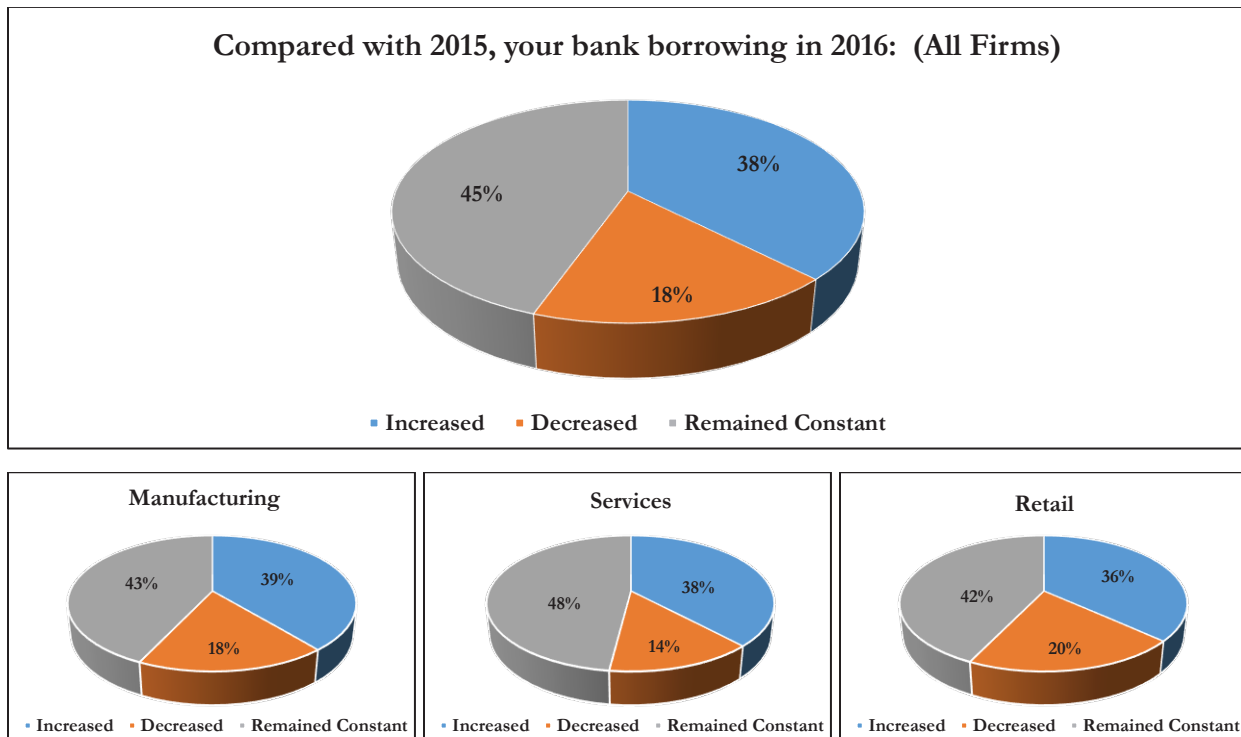


**Lahore School of Economics and Lahore Chamber of Commerce & Industry  
Business Confidence Survey 2017**

The next section of the survey focused on the level of bank borrowing by firms in 2016 to see whether the increase in investment level by firms was financed by bank borrowing or by their own sales revenues. There were 17% more firms who said that their bank borrowing increased as compared to the previous year which shows that increases in investment levels were generally financed by bank borrowing in 2016. This is an important result because it shows that the financial sector in Pakistan may be better meeting the financial and investment needs of the business community as compared to previous years. There was a slight increase in bank

borrowing in the case of the manufacturing sector firms, with 39% of firms saying they increased their bank borrowing in 2016 as compared to 31% of firms in 2015. However, both the services and the retail sector firms have significantly increased their bank borrowings in the current year, with 38% firms from the services sector reported that they had increased their bank borrowing in 2016 as compared to only 16% firms in 2015. Similarly, 36% firms from the retail sector reported that they had increased their bank borrowings in 2016 as compared to only 17% firms in 2015. These results are illustrated in Figure 3.2.

**Figure 3.2:**

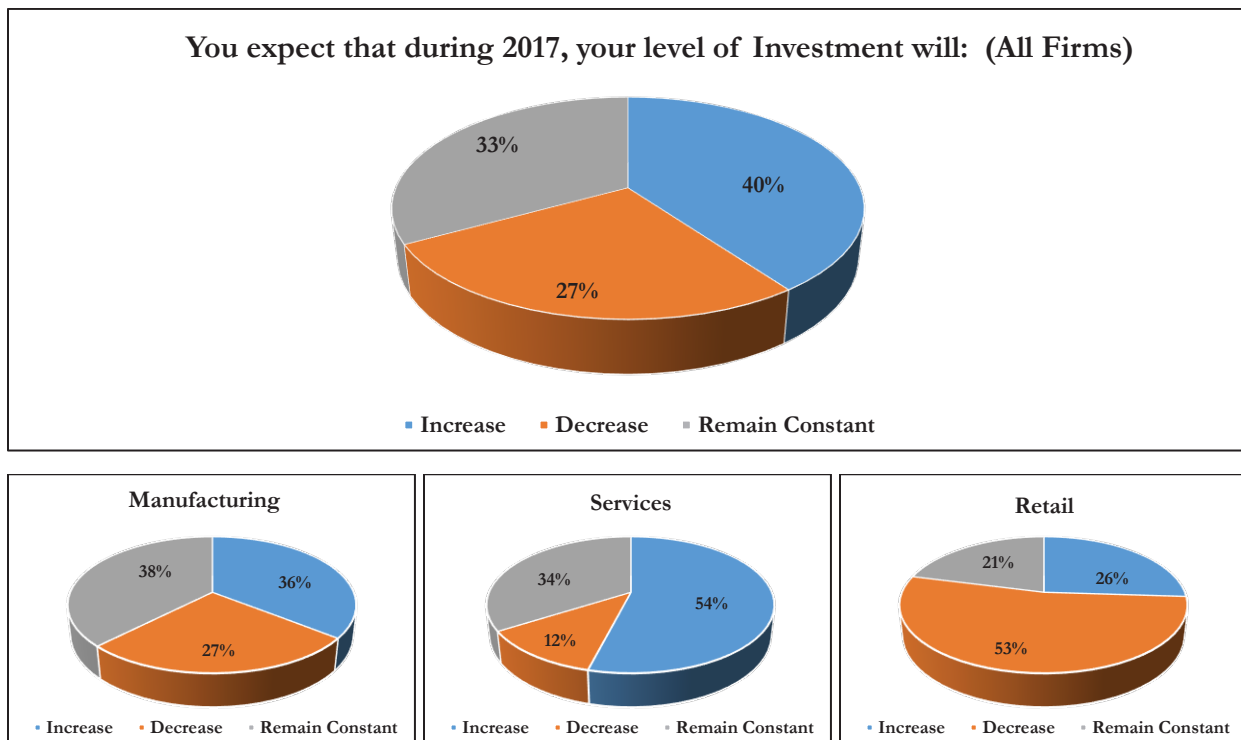


**Lahore School of Economics and Lahore Chamber of Commerce & Industry  
Business Confidence Survey 2017**

When the firms were asked about their expectations over the current year, a significant change was found regarding future investment. Only 36% of firms in the manufacturing firms said that they plan to increase their investment in 2017 as compared to much larger percentage (76%) of firms which had expected to increase their level of investment in the previous year. The retail sector firms also follow the same trend,

as only 26% of firms reported that they expect to increase their investment in 2017, while a 55% firms had expected to increase their level of investment in the previous year. However, service sector firms seemed to be more optimistic with 54% of firms planning to increase their investment in 2017. These results are illustrated in Figure 3.3.

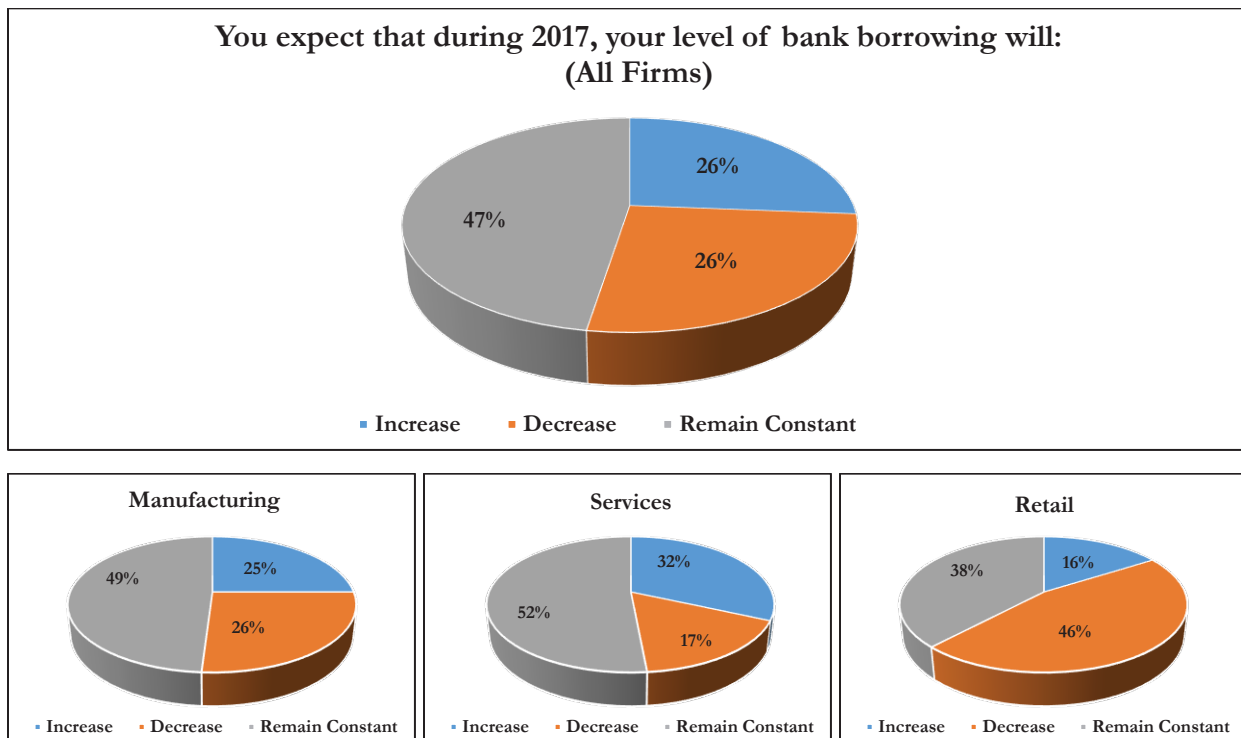
**Figure 3.3:**



Finally, firms were asked whether they expect their bank borrowing to increase, decrease or remain the same. It was found that except for the service sector firms, most firms do not plan on utilizing bank borrowing to finance their planned investments.

In spite of the prevailing low interest rates in Pakistan, these results show that the business community is uncertain about expansions in their investment levels and thus they are not relying much on the financial sector in the coming year. These results are illustrated in Figure 3.4.

Figure 3.4:



### 3.2. Trend Analysis of Investment Levels and Bank Borrowing of firms in years 2014, 2015 & 2016:

An analysis of the trend of investment and bank borrowing was done based on three consecutive business confidence surveys to see the percentage of firms who increased their level of investment during these years and to see whether increases in investment were financed by bank's borrowing or by their own sales revenues.

#### Trend Analysis of Investment Levels:

The analysis of investment levels by all firms showed a slowdown as 60% of firms had reported an increase in their investments level in 2015 which fell to 38% in 2016. The sector wise analysis

of investment level trends revealed that the manufacturing sector firms experienced a slowdown in their level of investment, with 76% of firms reported an increase in 2015 as compared to only 34% in 2016. The retail sector firms also had major slowdown in their investment level, with 55% reporting an increase in 2015 which decreased to 32% in 2016. However, the investment in services sector firms remained relatively stable over this period, with 51% of firms reporting an increase in their level of investment in 2016 as compared to 56% of firms in 2015. These results are illustrated in Figure 3.5a, Figure 3.5b, Figure 3.5c & Figure 3.5d:

Figure 3.5a:

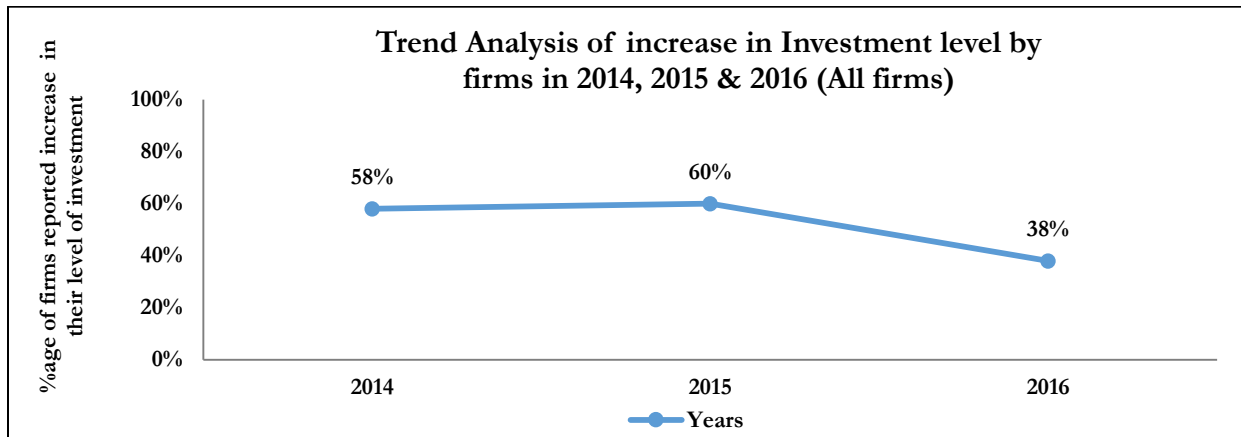


Figure 3.5b:

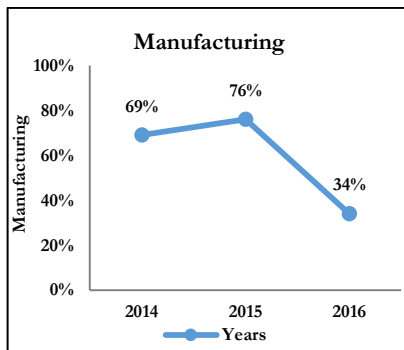


Figure 3.5c:

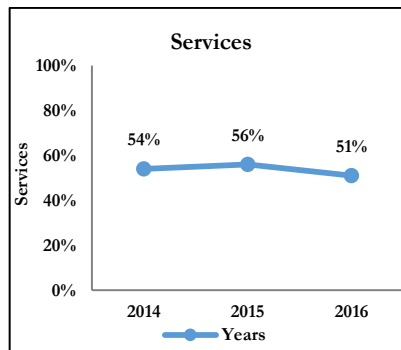
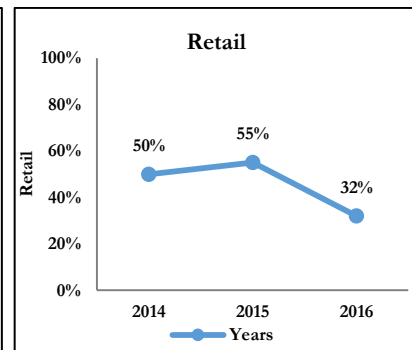


Figure 3.5d:

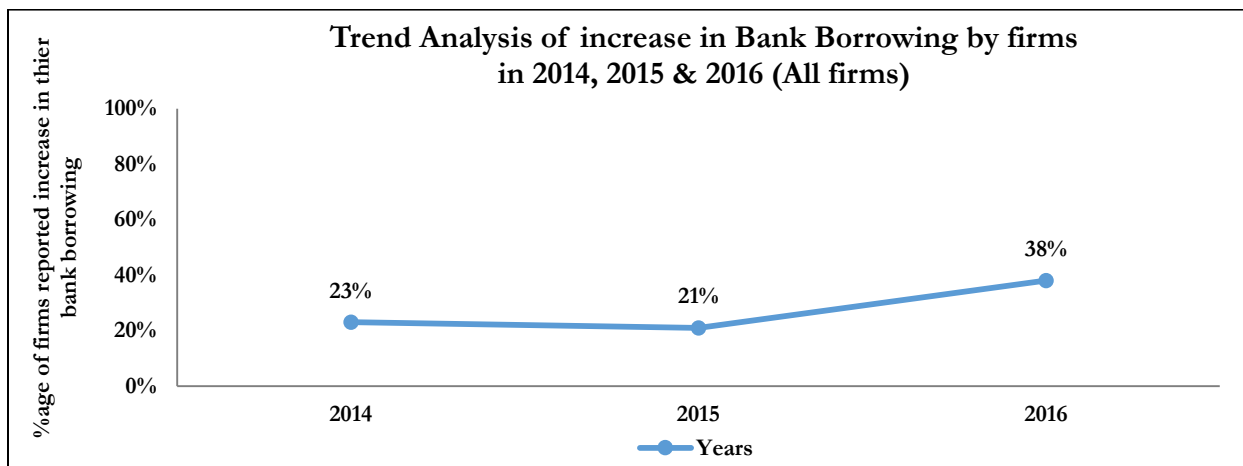


**Trend Analysis of Bank Borrowing:**

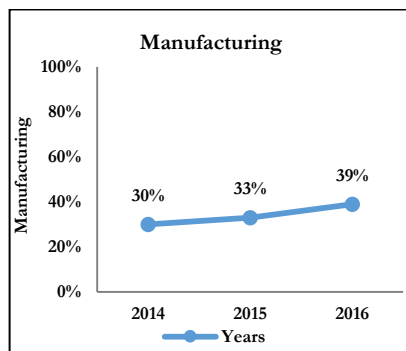
As opposed to previous two years, there has been increase in the number of firms reporting higher bank borrowing in 2016. The trend analysis of the percentage of firms who reported an increase in their bank borrowing revealed that there has been a 17% increase in the number of firms with higher bank borrowing in 2016 as compared to last year. The sector wise analysis of bank borrowing trend showed that the largest increase

in bank borrowing came in the services sector where 22% more firms reported higher bank borrowing as compared to last year. This was followed by the retail sector firms, with 19% more firms reporting higher bank borrowing as compared to last year. At the same time, there was a slight (6%) increase in growth in bank borrowing reported by the manufacturing sector as compared to last year. These results are illustrated in Figure 3.6a, Figure 3.6b, Figure 3.6c, & Figure 3.6d.

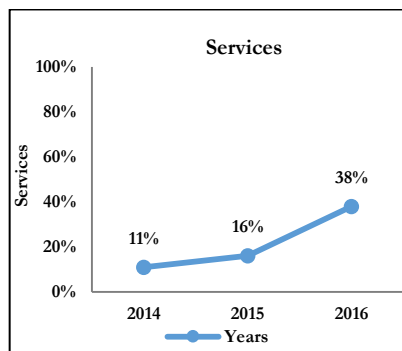
**Figure 3.6a:**



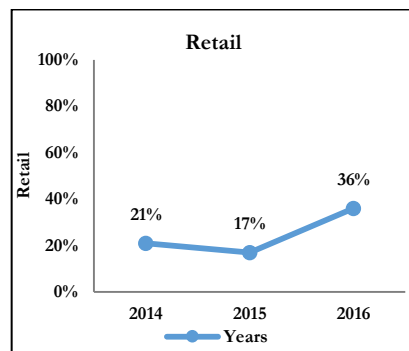
**Figure 3.6b:**



**Figure 3.6c:**



**Figure 3.6d:**



#### 4.1. Analysis of the Number of Employees at the Firm Level

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

This year's survey showed that there was a reduction in the overall employment levels reported by firms. Except for the services sector firms which hired 19% more employees compared to last year, both the manufacturing and the services sector firms reported significant reductions in the number of employees. The overall increase in employment levels in the services sector may be explained by the positive impact of higher sales in this sector.

On the other hand, manufacturing firms who had reported highest level of increase in their number of employees (61%) in 2015 have

reported a significant reduction in the number of firms (45%) who reported an increase in their number of employees in 2016. Similarly, a significant percentage (44%) of retail firms who had reported an increase in their number of employees in 2015 have reported a significant reduction in the number of firms (38%) who reported an increase in their number of employees in 2016. On the other hand, the services sector firms reported an increase in their number of employees (59%) in 2016 as compared to the previous year (40%). These results are illustrated in Figure 4.1.

As opposed to last year, this year's survey results showed that most firms are expecting their employment levels to remain the same in 2017. These results are illustrated Figure 4.2.

Figure 4.1:

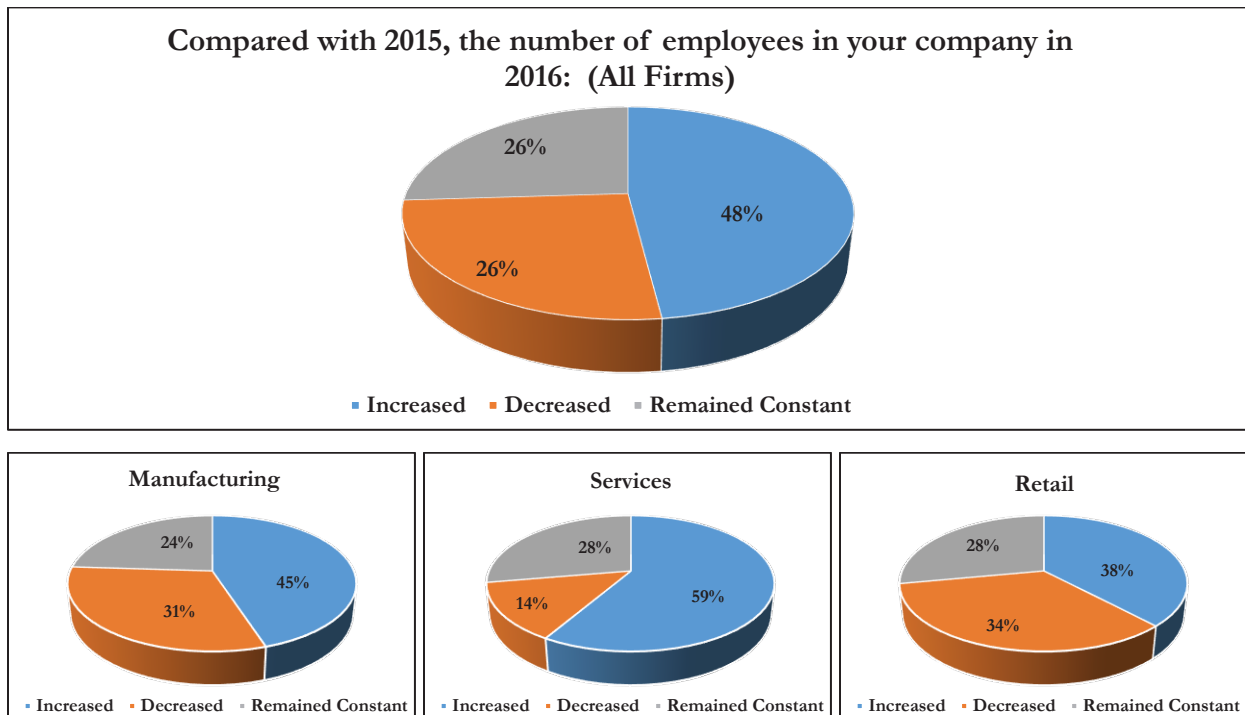
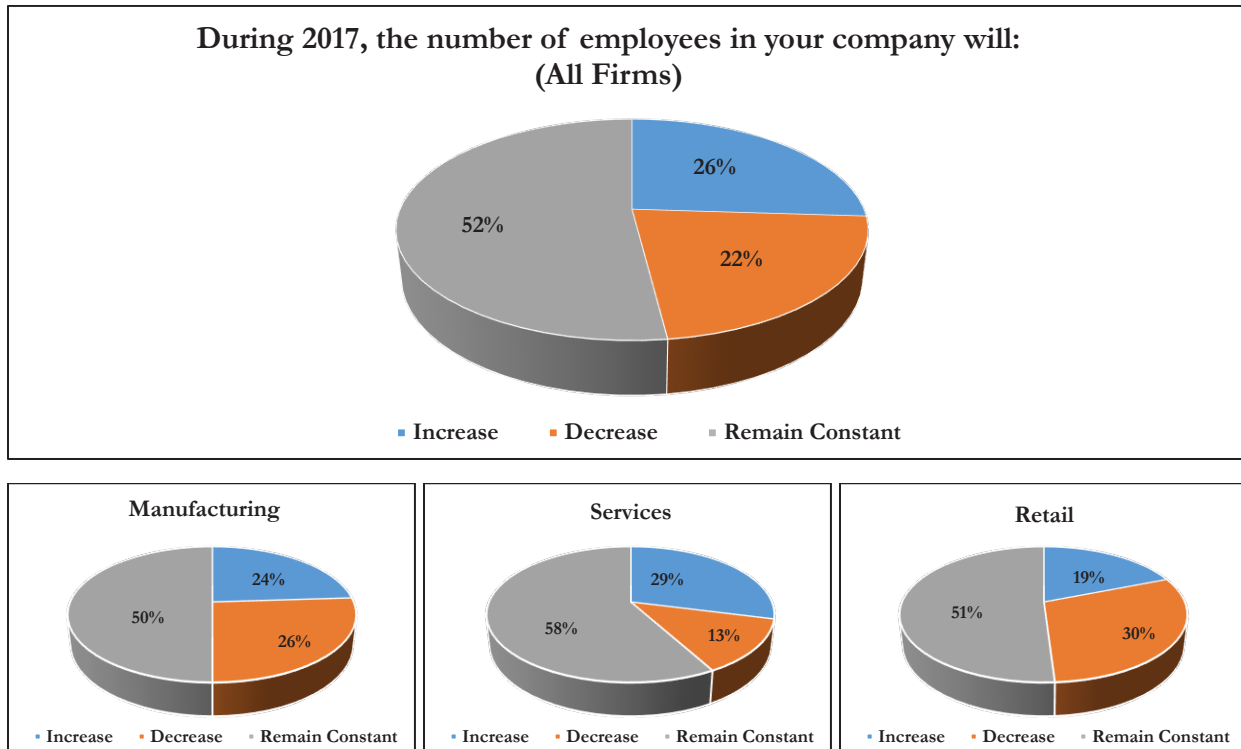




Figure 4.2:



This reduction in employment trend in all three sectors may be because of the different set of constraints faced, such as lower anticipated domestic & export sales and high cost of inputs.

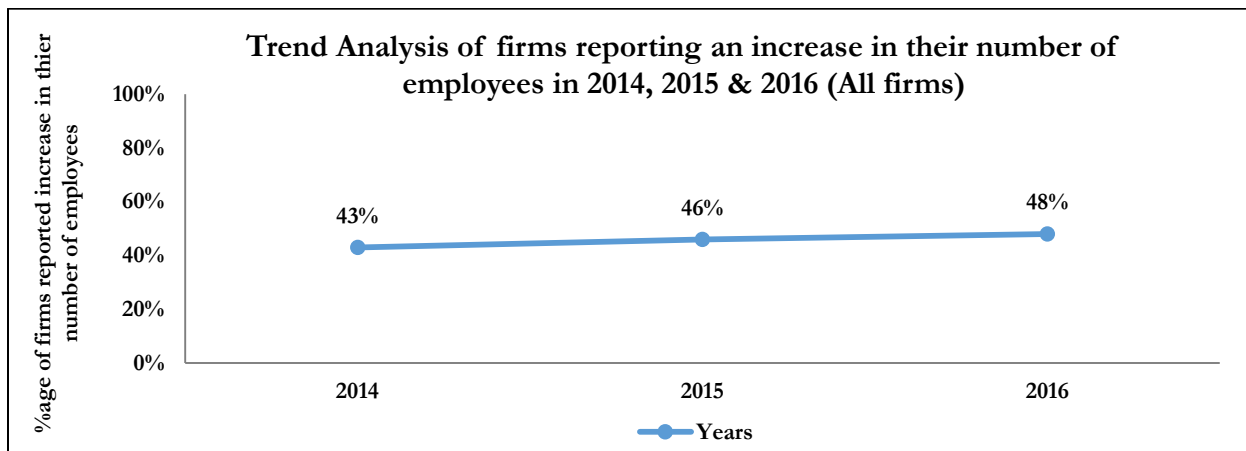
Lack of optimism regarding sales growth in these sectors may have added to firms being hesitant about increasing employment in 2017.

**4.2. Trend Analysis of Number of Employees at the Firm Level in years 2014, 2015 & 2016:**

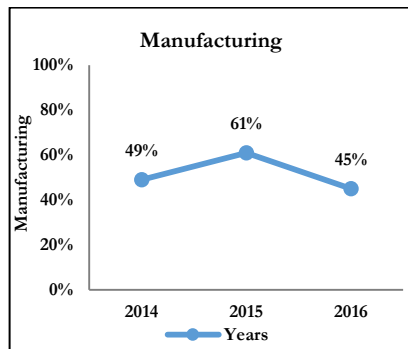
An analysis of the trend of firm level employment shows that it has remained stable over this period. However, it is interesting to note that the sector-wise analysis of this trend showed that this stability in the employment level mainly came from the services sector firms as both the manufacturing and the retail sector firms seem to have experienced a slowdown in employment growth over this period. The manufacturing sector had a major drop in the number of firms reported an increase in their

employment level, dropping from 61% in 2015 to 45% in 2016. Similarly, there was a drop in the number of the retail sector firms reported an increase in their number of employees, dropping from 44% in 2015 to 38% in 2016. On the other hand, the services sector reporting higher growth in their employment levels, with the number of firms reporting increase in the employment level increasing from 40% in 2015 to 59% in 2016. These results are illustrated in Figure 4.3a, Figure 4.3b, Figure 4.3c and Figure 4.3d:

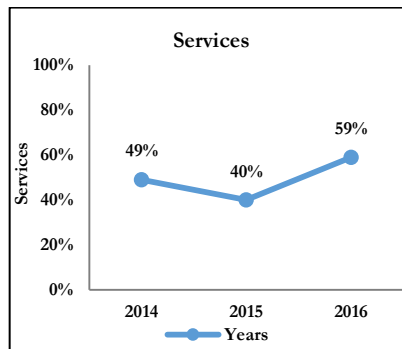
**Figure 4.3a:**



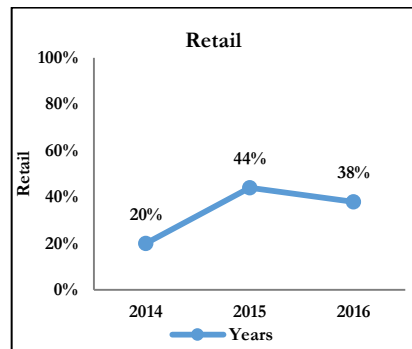
**Figure 4.3b:**



**Figure 4.3c:**



**Figure 4.3d:**



### 5.1. Analysis of Firm Level Expectations about Pakistan’s Economy

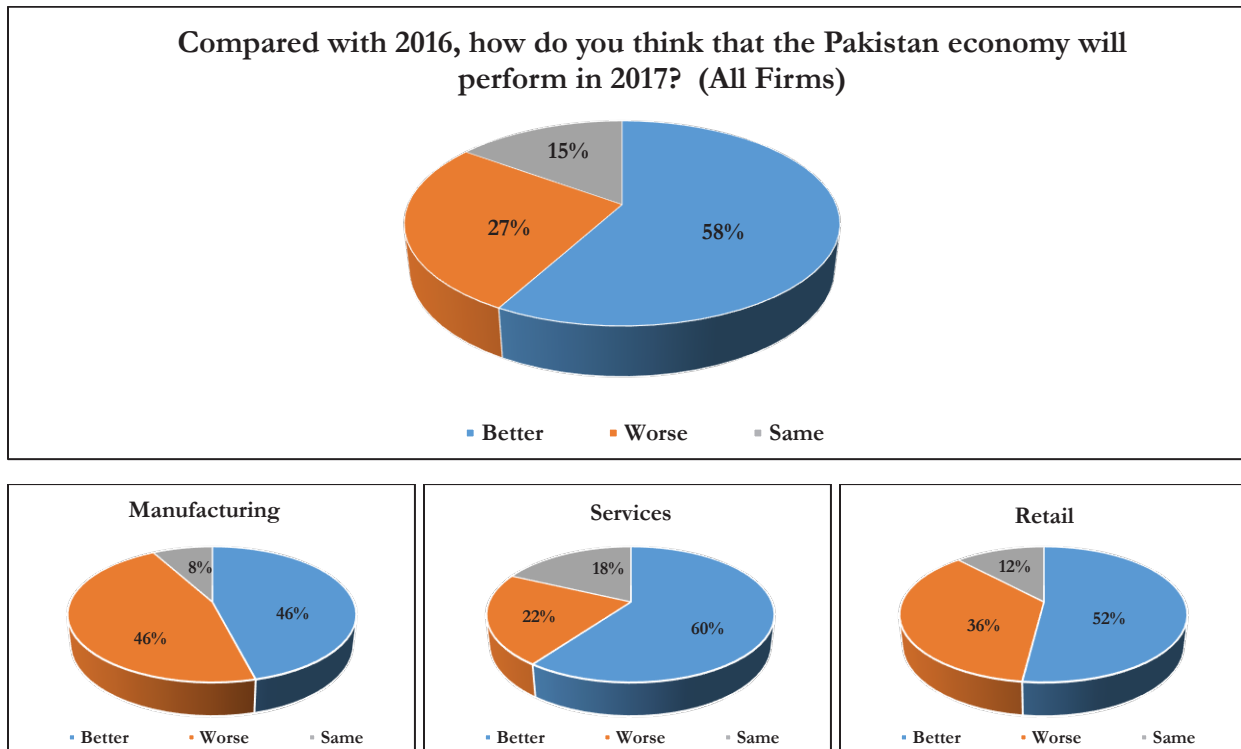
In order to get a general sense of firms about the state of Pakistan’s economy, firms were asked a general question about their expectations of the economy in 2017.

There was a significant increase in the percentage of firms having positive expectations about Pakistan’s economy, with 58% of firms expecting the economy to do better in 2017 as compared to 51% of firms in the previous year. Interestingly the level of optimism has mainly come in the service sector firms, with the number of firms expecting an improvement increasing from 53% in 2015 to 60% in 2016. However, there was a slight decline in the

level of optimism in case of the manufacturing and retail sector firms. These results are illustrated in Figure 5.1.

The recent trend in GDP growth, improvement in law and order conditions, lower inflation, lower interest rates and expected completion of various energy and infrastructure projects may be some of the factors driving this optimism. Whereas, deterioration in Pakistan’s balance of payments due to a decline in exports and increase in imports may be some factors which could explain the uncertainty found in the manufacturing and the retail sector firms.

Figure 5.1:

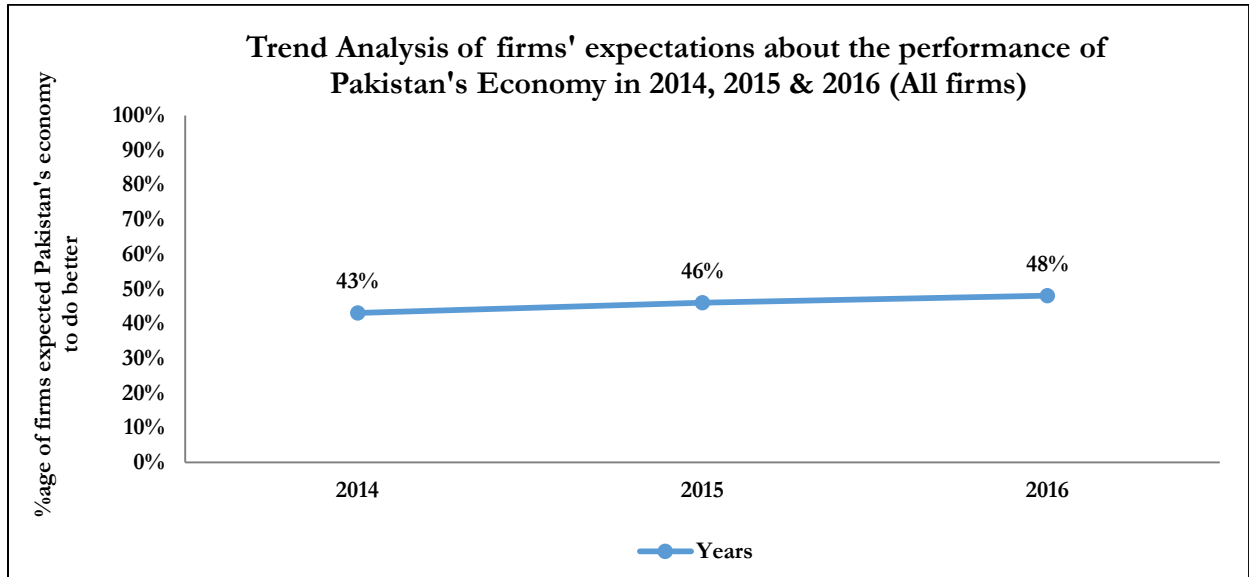


**5.2. Trend Analysis of Firm Level Expectations about Pakistan's Economy in years 2014, 2015 & 2016:**

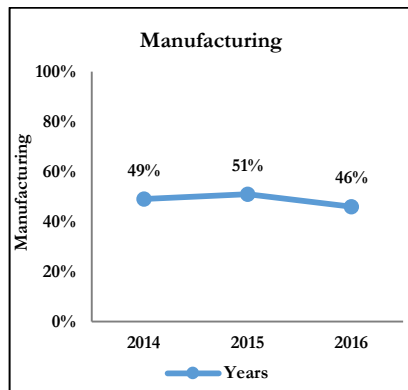
There was an overall increasing trend of firm level expectations about the Pakistan's economy for the years 2014, 2015 and 2016. However, the sector-wise analysis found that there was a 5% decline in the number of manufacturing sector firms, a 4% decline in the number of the retail

sector firms, and a 7% increase in the number of the services sector firms that expressed positive expectations about the performance of the Pakistani economy in this year as compared to last year. These results are illustrated in Figure 5.2a, Figure 5.2b, Figure 5.2c and Figure 5.2d:

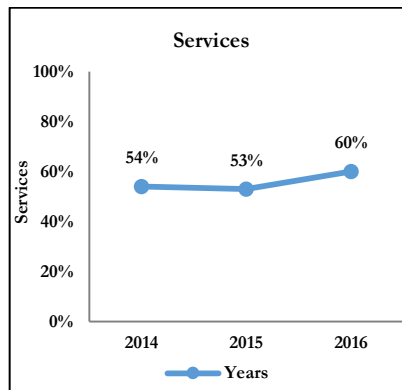
**Figure 5.2a:**



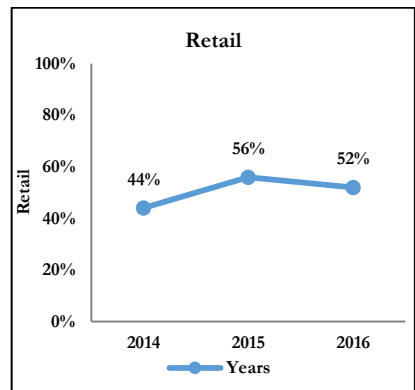
**Figure 5.2b:**



**Figure 5.2c:**



**Figure 5.2d:**



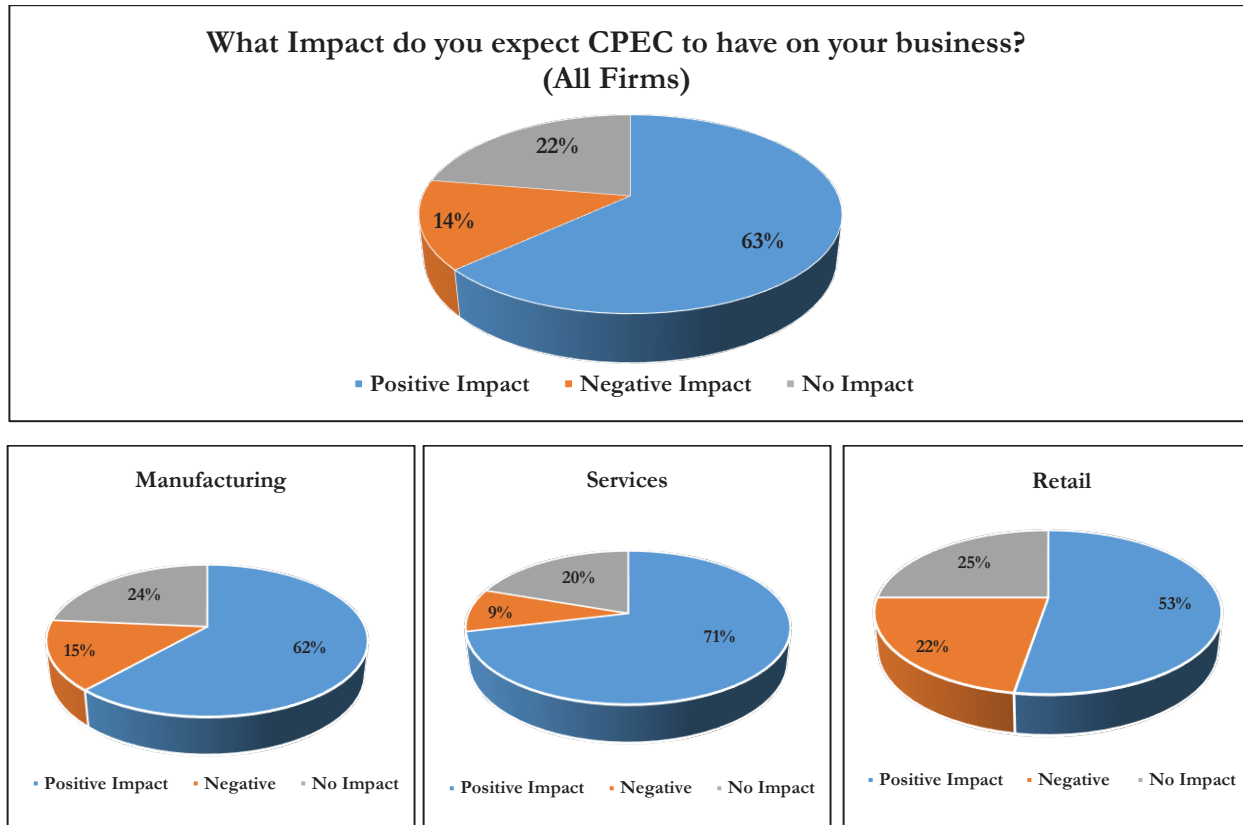
## 6. Analysis of Question on the Expectations from CPEC

The current year's survey also attempted to study the possible impact of the China-Pak Corridor (CPEC) on the business sector in Pakistan to determine whether the business community is expecting a positive impact, a negative impact or no impact on their business in the coming years.

Interestingly, a large proportion of firms (63%) had positive expectations about the impact of CPEC on their business, while 22% of firms said it would have no impact on their business and only a small percentage of 14% firms were of the view that it might have a negative impact on their business.

A comparison of expectations across sectors revealed that the services sector was the most positive about CPEC where 71% of firms were positive about the impact of CPEC, followed by the manufacturing sector in which 62% of the firms expected a positive impact. However, the retail sector was the least positive about the impact of CPEC, with 53% of retail firms expecting CPEC to have a positive impact. These results are illustrated in Figure 6.

Figure 6:



## 7. Analysis of Other Factors Affecting Firms

In the final section of the survey, the firms across all three sectors were asked about their opinion about other factors affecting their business.

The impact of various factors was analyzed by arranging them in descending order of importance. Overall firms across all three sectors indicated that Federal Corporate Tax Policies (79%), Provincial Taxes (79%), Law and Order Situation (73%), Import and Custom Duty Policies (72%) and Access to Finance (72%) were the most important factors. A sector

wise analysis showed that the manufacturing sector firms found Energy Shortages (73%) and Import & Custom Duty Policies (73%) as the most important factors, the services sector firms found Import & Custom Duty Policies (71%) as the most important factor, whereas the retail sector firms found Provincial Commercialization Costs & Policies (71%) and Energy Shortages (68%) as the most important factors affecting their business. These results are illustrated in Table 7.1, Table 7.2, Table 7.3 and Table 7.4.

**Table 7.1: Analysis of Other Factors (All Firms)**

Sr. No.	Factors	Relative Importance in terms of percentage of firms finding a major impact
1	Federal Corporate Tax Policies	79%
2	Provincial Taxes	79%
3	Law and Order Situation	73%
4	Import and Custom Duty Policies	72%
5	Access to Finance	72%
6	Energy Shortages	67%
7	Shortages of Skilled Labour	57%
8	Provincial Commercialization Costs & Policies	57%
9	Foreign Competition	52%
10	Slow or Ineffective Mechanism to Enforce Contracts or Resolve Disputes	46%
11	Economics Recessions in the World Markets like EU & USA	44%

### Sector-Wise Analysis of Other Factors:

Table 7.2: Analysis of Other Factors (Manufacturing Sector Firms)			Table 7.2: Analysis of Other Factors (Services Sector Firms)			Table 7.2: Analysis of Other Factors (Retail Sector Firms)		
Sr. No.	Factors	Relative Importance in terms of percentage of firms having a major impact	Sr. No.	Factors	Relative Importance in terms of percentage of firms having a major impact	Sr. No.	Factors	Relative Importance in terms of percentage of firms having a major impact
1	Federal Corporate Tax Policies	79%	1	Provincial Taxes	78%	1	Federal Corporate Tax Policies	84%
2	Provincial Taxes	79%	2	Federal Corporate Tax Policies	76%	2	Provincial Taxes	76%
3	Access to Finance	78%	3	Import and Custom Duty Policies	71%	3	Law and Order Situation	76%
4	Law and Order Situation	75%	4	Law and Order Situation	68%	4	Access to Finance	75%
5	Energy Shortages	73%	5	Access to Finance	61%	5	Provincial Commercialization Costs & Policies	71%
6	Import and Custom Duty Policies	73%	6	Energy Shortages	53%	6	Energy Shortages	68%
7	Shortages of Skilled Labour	62%	7	Provincial Commercialization Costs & Policies	53%	7	Import and Custom Duty Policies	68%
8	Provincial Commercialization Costs & Policies	54%	8	Foreign Competition	52%	8	Shortages of Skilled Labour	58%
9	Foreign Competition	52%	9	Shortages of Skilled Labour	49%	9	Foreign Competition	49%
10	Slow or Ineffective Mechanism to Enforce Contracts or Resolve Disputes	50%	10	Economics Recessions in the World Markets like EU & USA	46%	10	Slow or Ineffective Mechanism to Enforce Contracts or Resolve Disputes	43%
11	Economics Recessions in the World Markets like EU & USA	48%	11	Slow or Ineffective Mechanism to Enforce Contracts or Resolve Disputes	45%	11	Economics Recessions in the World Markets like EU & USA	33%

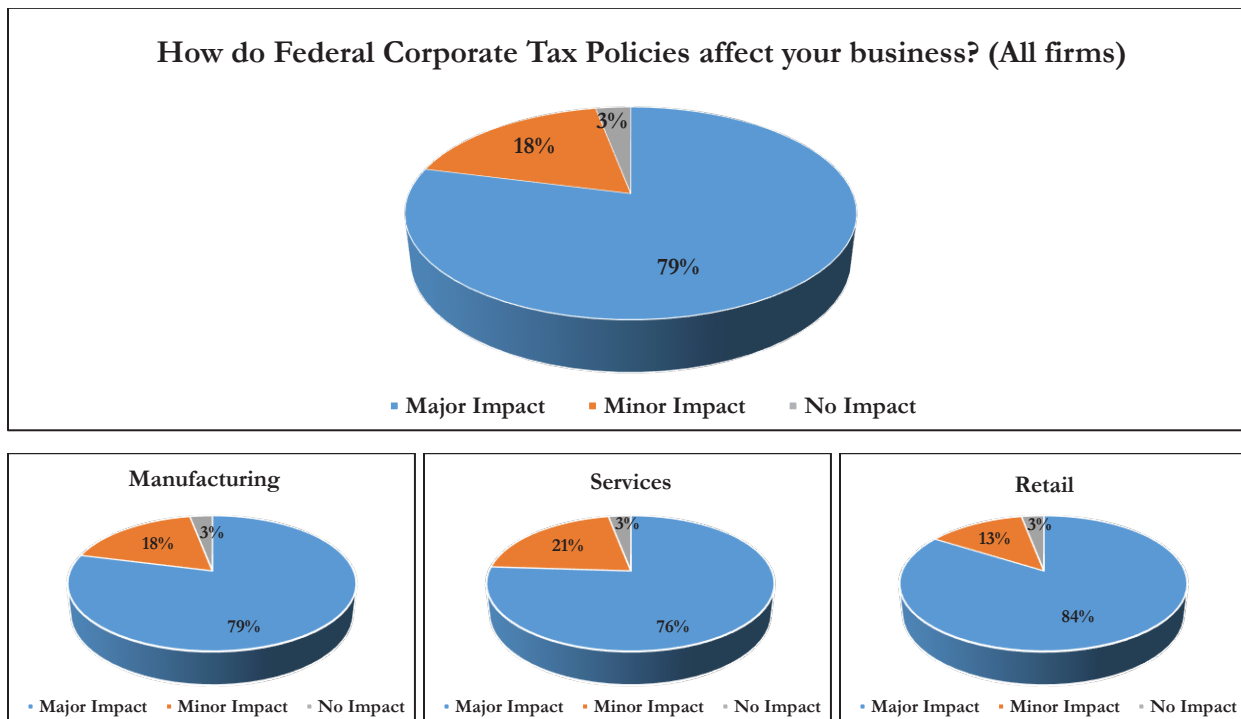
In the following section of the survey, a detailed analysis is presented regarding firm's opinions on a wide range of other factors that may have a major impact, a minor impact or no impact on their business. These factors ranged in scope from domestic factors to foreign factors and the impact of each of these factors is discussed below:

### 7.1. Federal Corporate Tax Policies

Firms were then asked how corporate tax policies impact their business. A significant percentage

(79%) firms across all sectors considered it to have a major impact on business, with 84% of firms in the retail sector, 79% of firms in the manufacturing sector and 76% of firms in the services sector saying that it had a major impact on business in this year. Corporate tax policies seem to have gained importance across all three sectors as compared to the previous year. This year, corporate tax policies seem to be of the highest importance to the retail sector, followed by manufacturing sector and services sector. These results are illustrated in Figure 7.1.

Figure 7.1:



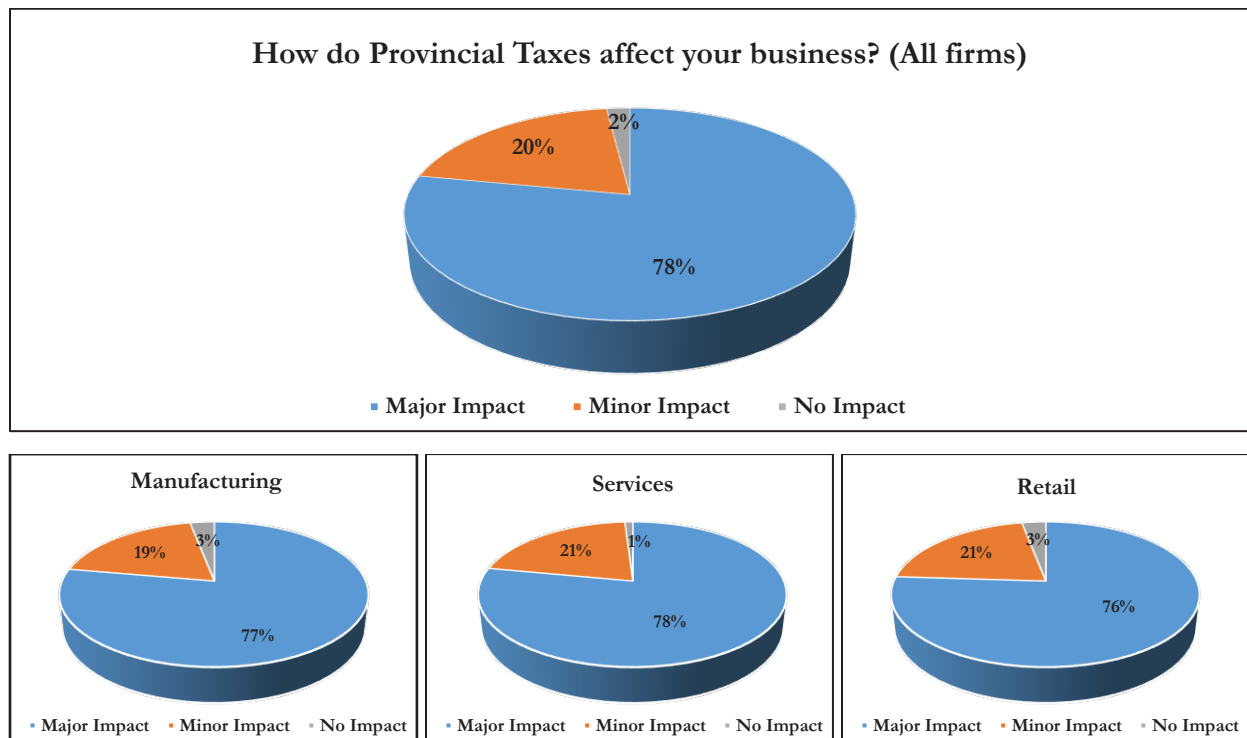


## 7.2. Provincial Taxes

Firms were also asked about how provincial taxes impact their business. 78% of firms considered provincial taxes to have a major impact on their business. Although provincial taxes seem to have strong impact on all three sectors, for service sector firms, the impact has gone up from 71% (2015) to 78% (2016). 77% of manufacturing sector firms also pointed this out as a major constraint this year as compared to 75% last year, and 76% of the retail sector firms pointed this out as a major constraint this year as compared to 87% last year. These results are illustrated in Figure 7.2.

The results of this year's survey also show that 71% of firms in the retail sector found commercialization costs and policies to be a major impediment. Similarly, 76% of the retail sector firms found law and order to be a major impediment, while 76% of the retail sector firms found provincial taxes to be a problem. This points to an urgent need for provincial authorities to reform both the provincial regulatory and tax system in order to promote firm level growth.

Figure 7.2:



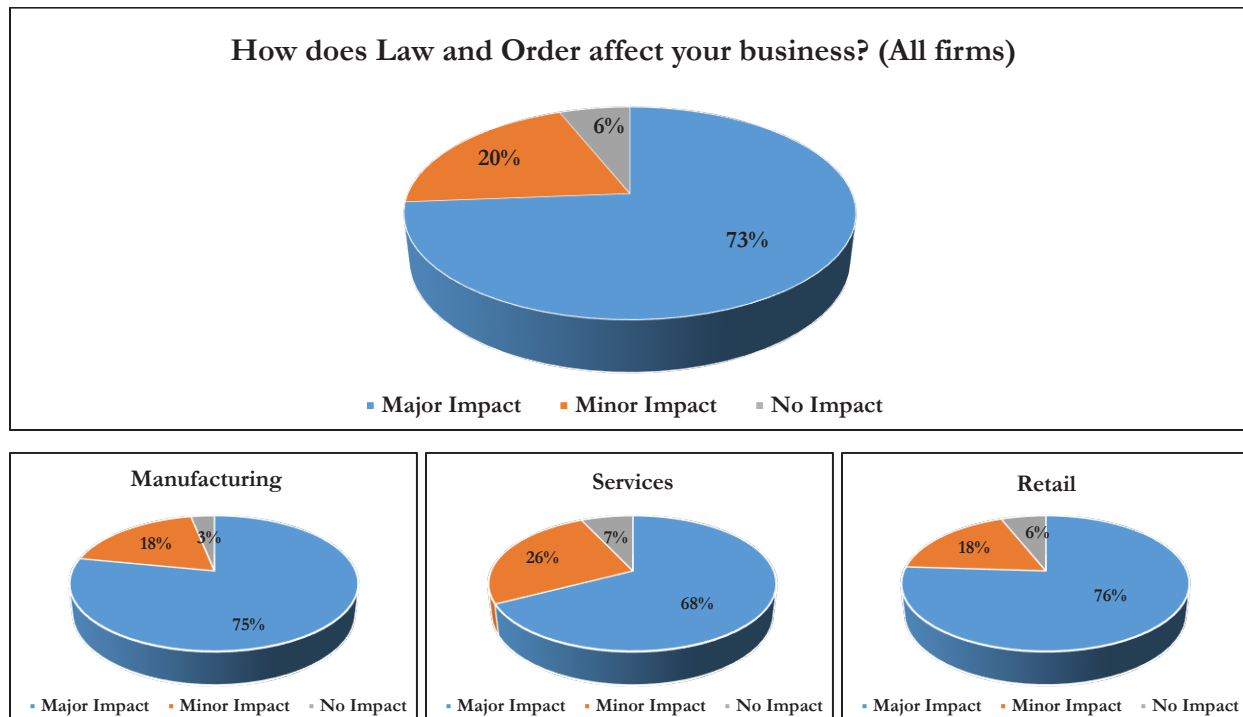
### 7.3. Law and Order Situation

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 68 % of the firms had reported law and order to be an important concern last year, while this year even a larger percentage of 73% firms considered it to have a major impact on business. Law and order seems to be most important for the manufacturing and the retail sectors, with a significant percentage (76%) of firms in the retail sector and a significant percentage (75%) of firms in the manufacturing sector said that law and order had a major impact on business. Whereas, 68% of the service sector firms consider law and order to have a

major impact on their business as compared to 73% firms who had said that it had a major impact in the previous year. These results are illustrated in Figure 7.3.

Although the result related to energy constraints being a constraint to growth was expected, the survey found that problems of law and order are becoming more important to firms than 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 7.3:



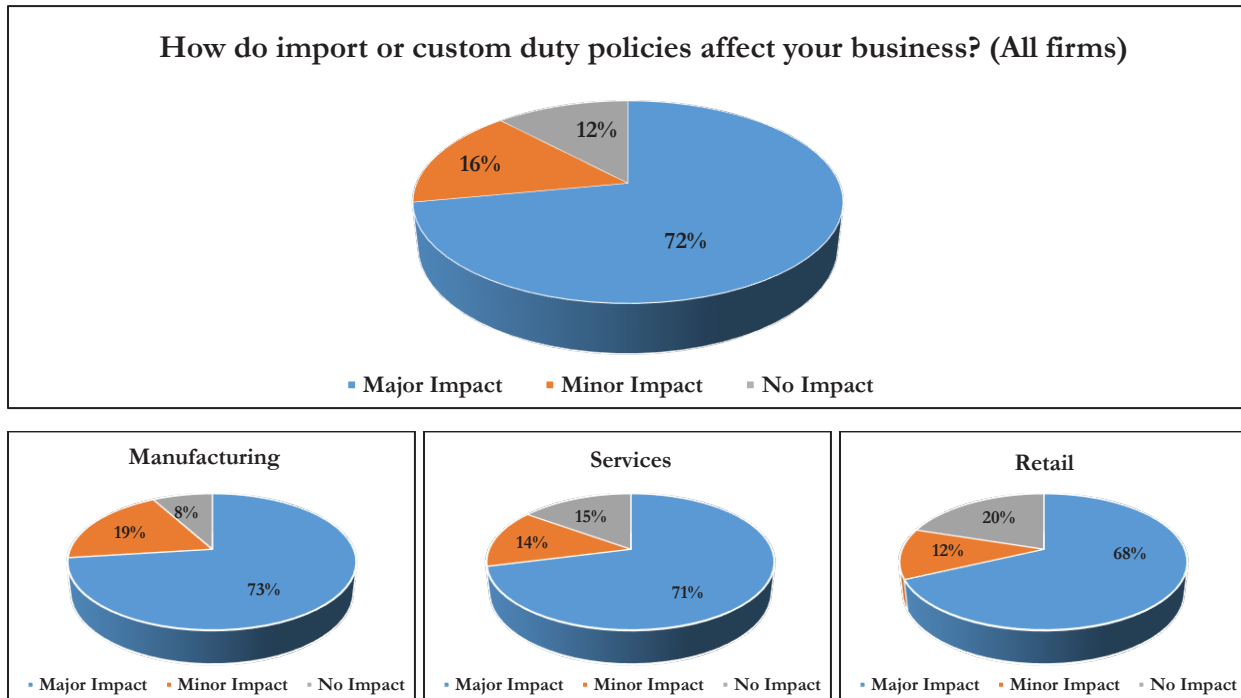
### 7.4. Import and Custom Duty Policies

Firms were asked how import or custom duty policies impact their business. Like last year, a significant percentage of 72% firms considered import or custom duty policies to have a major impact on business this year, with 73% firms in the manufacturing sector, 71% firms in the services sector and 68% firms in the retail sector considering it to have a major impact on their business. These results are illustrated in Figure 7.4.

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.

As found on the provincial level regulations, federally administered policies like corporate tax,

Figure 7.4:



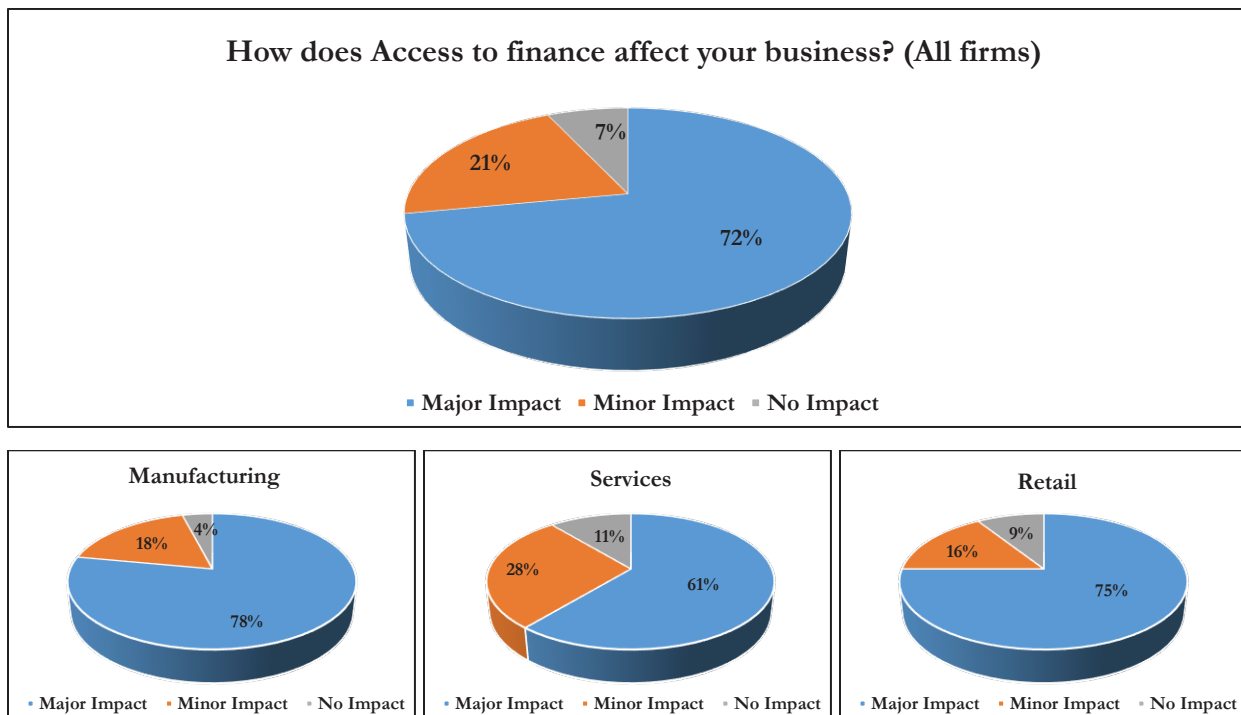
### 7.5. Access to Finance

Firms were asked how “access to finance” impacts their business. In this year’s survey access to finance was considered an important element like last year as 72% of firms finding it to have a major impact on their business. Access to finance seemed to hold greater importance for the manufacturing sector firms as 78% of firms said that access to finance had a major impact on their business, while 75% had said it had a major impact last year. 61 % of firms in the services sector considered access to finance to have a major impact on their business this year as

compared to 58% in 2015. On the other hand, 81% of the firms in the retail sector access to finance to have a major impact which went down to 75% in this year. These results are illustrated in Figure 7.5.

These results seem to imply that access to finance seems to be a major growth impediment for firms in the manufacturing, services and retail sectors. The main reason behind this result may be the irregular availability of financing facilities and lack of government initiatives in this area.

Figure 7.5:

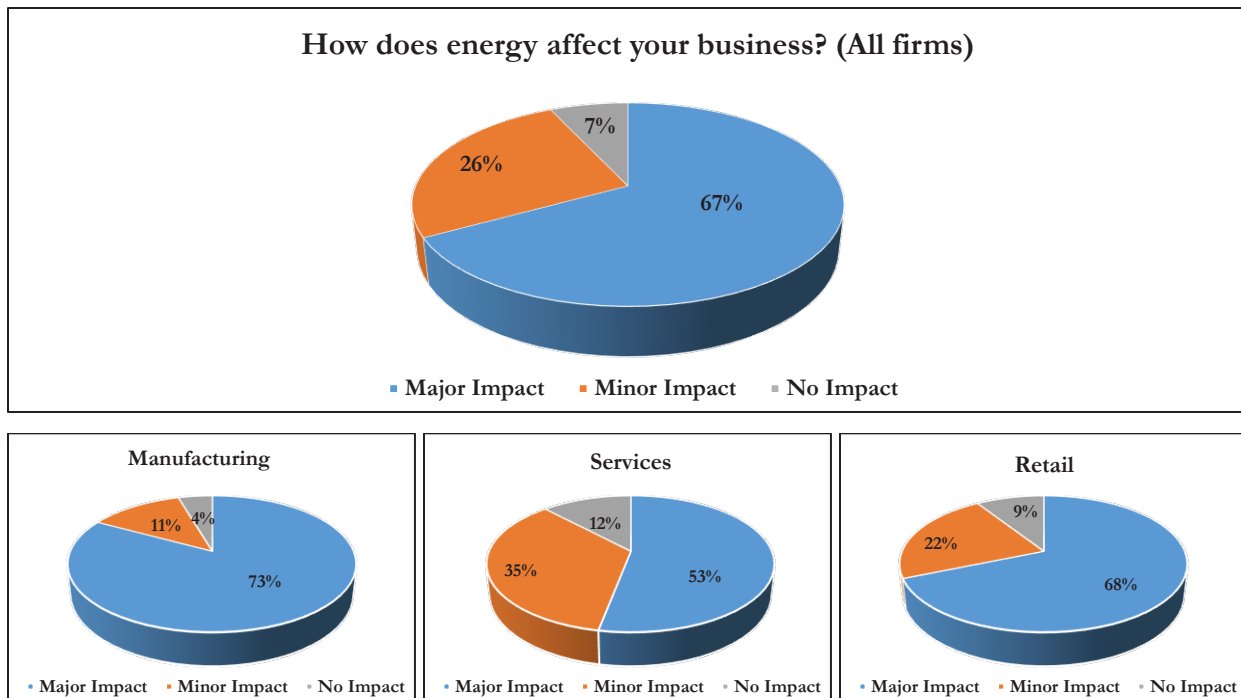


### 7.6. Energy Shortages

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 significant impact on firm level growth. About 7 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. However, it is interesting to note a smaller percentage of firms in the services found an impact of energy shortages with 53% of firms saying it had a major impact on their business this year as compared to 67% firms that said it had a major impact in last year. These results are illustrated in Figure 7.6.

Figure 7.6:

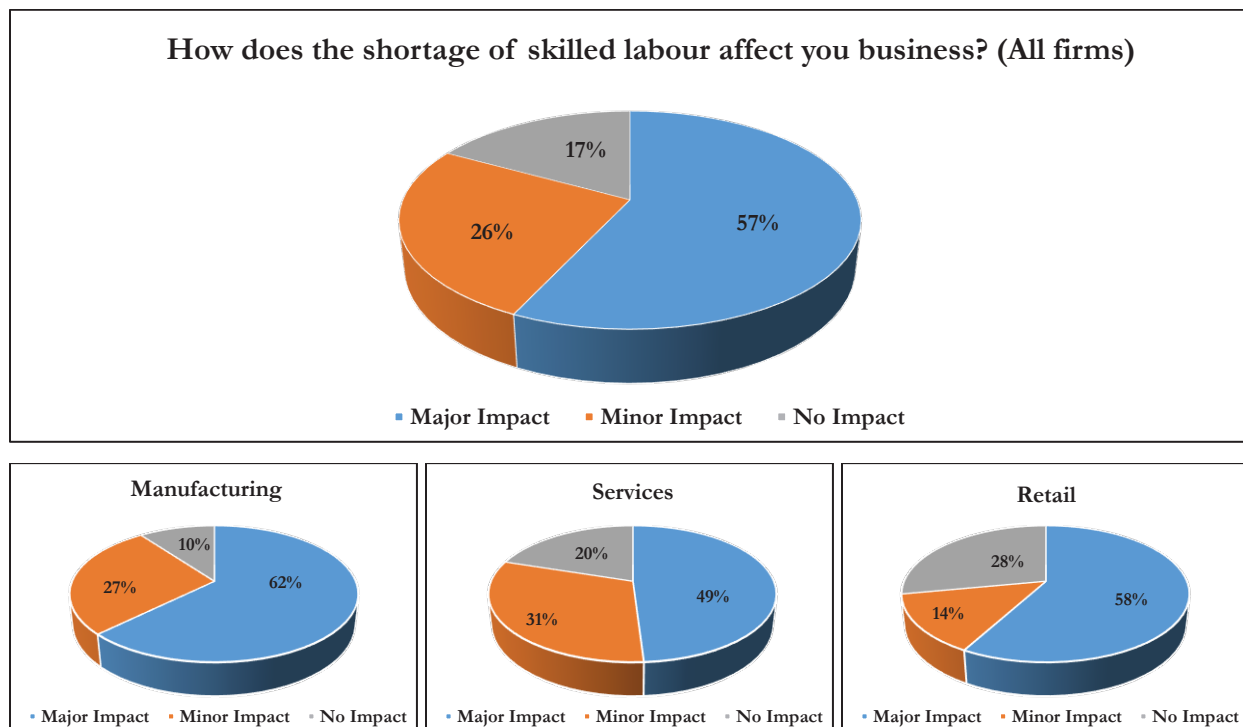


### 7.7. Shortage of Skilled Labour

Firms were also asked about how the shortage of skilled labour had impacted their business. This year, approximately 57% of firms across all sectors have reported shortage of skilled labour to be a major impediment to growth as compared to 51% of firms who said it had a major impact on their business in last year's survey. The shortage of skilled labour seems to be very important variable across all sectors, since 62% of the firms in the manufacturing sector, 58% firms in the retail sector and 49% of firms in the services sector said that shortage of skilled labour had a major impact on their business. However,

this factor seems to be an increasing concern for the manufacturing sector as only 57% of the manufacturing sector firms had reported this factor to have a major impact on their business last year, whereas this year a higher percentage of firms (62%) said it had a major impact on their business. 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. These results are illustrated in Figure 7.7.

Figure 7.7:

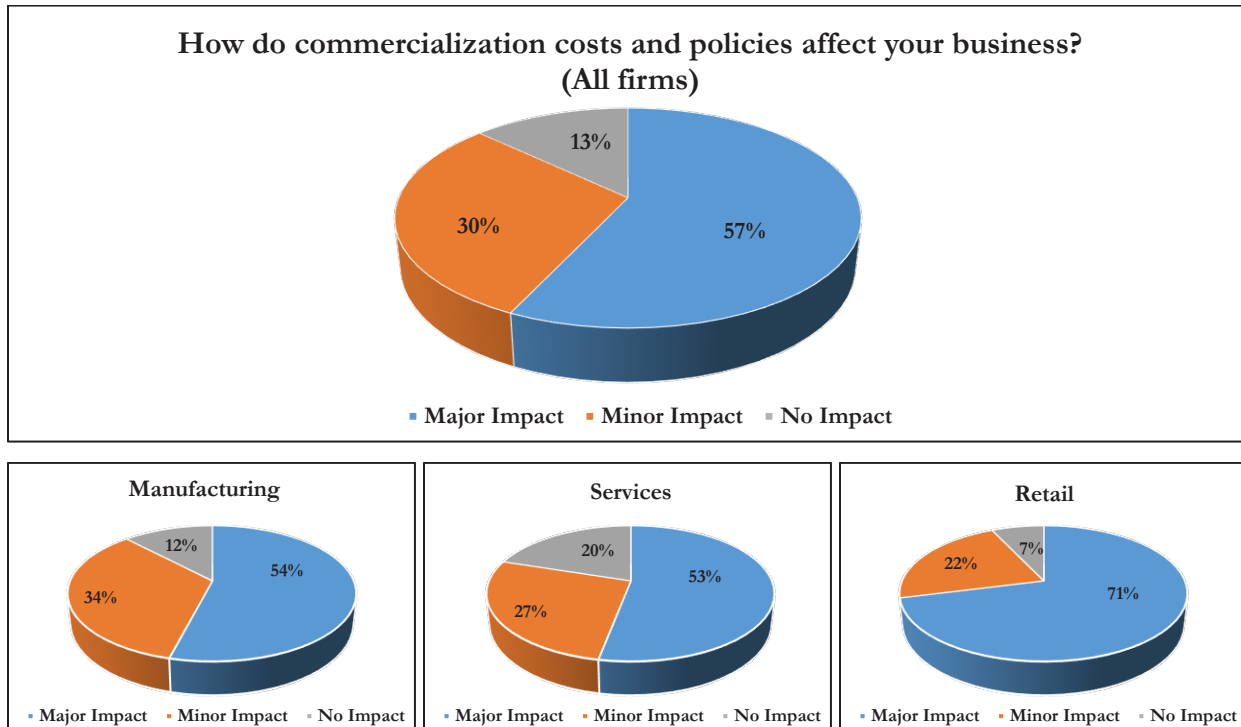


### 7.8. Provincial Commercialization Costs and Policies

Firms were asked how commercialization costs and policies impact their business. Firms in all three sectors considered commercialization costs and policies to be a major growing impediment to growth, with 57% firms saying it had a major impact on their business this year as compared to last year when 47% of the firms had said that this was a major constraint. The results showed that policies related to commercialization costs seem to be more important for firms in the retail sector with a significant percentage (71%) of firms

considering it to have a major impact on their business this year as compared to 63% firms in the previous year. Also, a large percentage (54%) of firms in the manufacturing sector firms consider it to have a major impact on their business this year as compared to 49% of firms in the previous year. Similarly, a larger percentage (53%) of firms in the services sector consider it to have a major impact on their business this year as compared to 38% of firms in the previous year. These results are illustrated in Figure 7.8.

Figure 7.8:

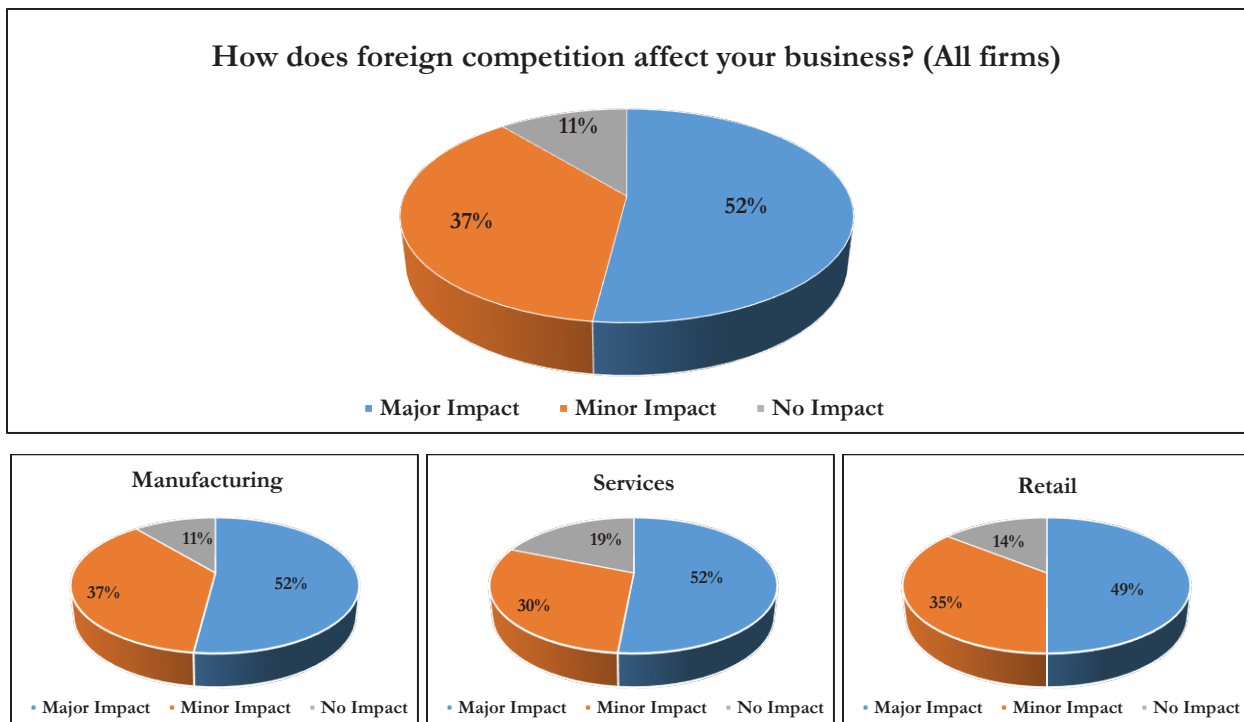


### 7.9. Foreign Competition

Firms were then asked how foreign competition impacted their business. Like last year, 52% of the firms considered foreign competition to have a major impact on business. 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 a significant impediment to growth. These results are illustrated in Figure 7.9.

Figure 7.9:



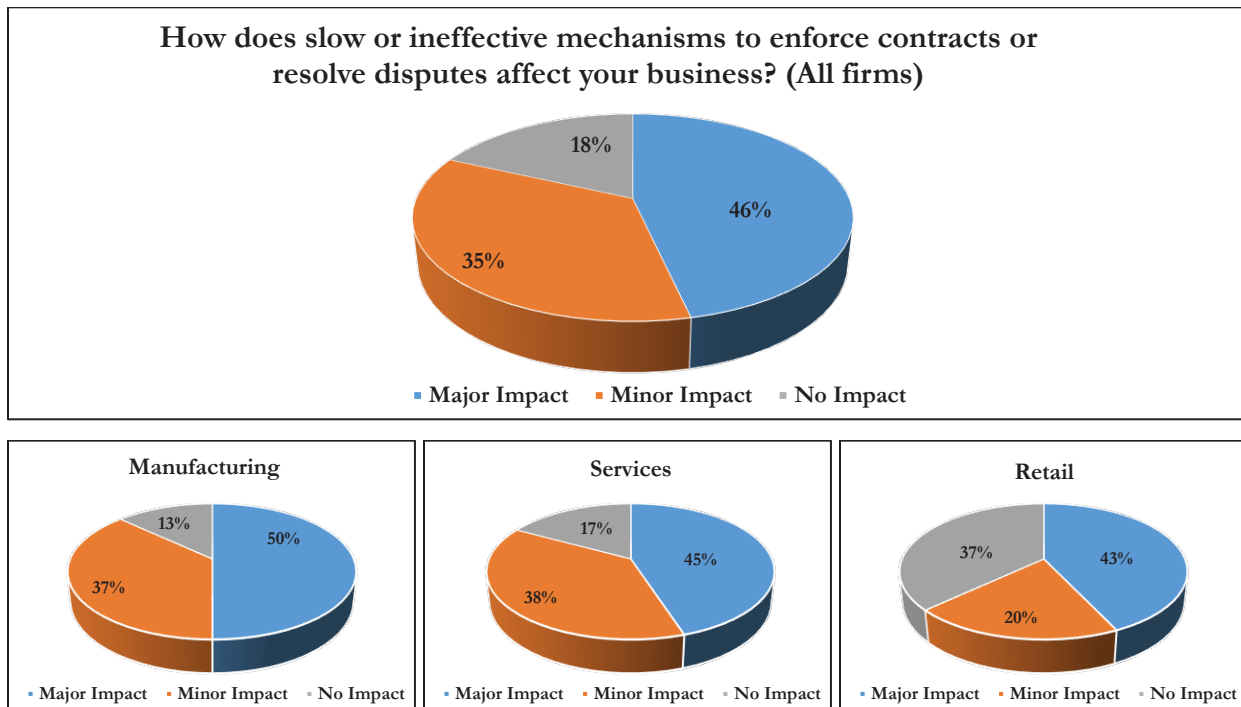


### 7.10. *Slow or Ineffective Mechanisms to Enforce Contracts or Resolve Disputes*

Firms were also asked about how slow or ineffective dispute resolutions impact their business. Last year 38% of the firms had considered ineffective mechanisms to resolve disputes to be important, however this year a larger percentage (46%) firms considered it to have a major impact on their business. Slow or ineffective mechanism to enforce contracts was found most important for firms in the manufacturing sector as 50% have reported it to have a major impact on their business as compared to only 31% of firms in last year. These results are illustrated in Figure 7.10.

This result is important at multiple levels: Firstly, it seems to imply that firms in the Manufacturing 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 cost of having contracts enforced. Also, it may also show that the manufacturing sector may rely more heavily on less formal mechanisms of contract enforcement and dispute resolution which slows down the process.

**Figure 7.10:**

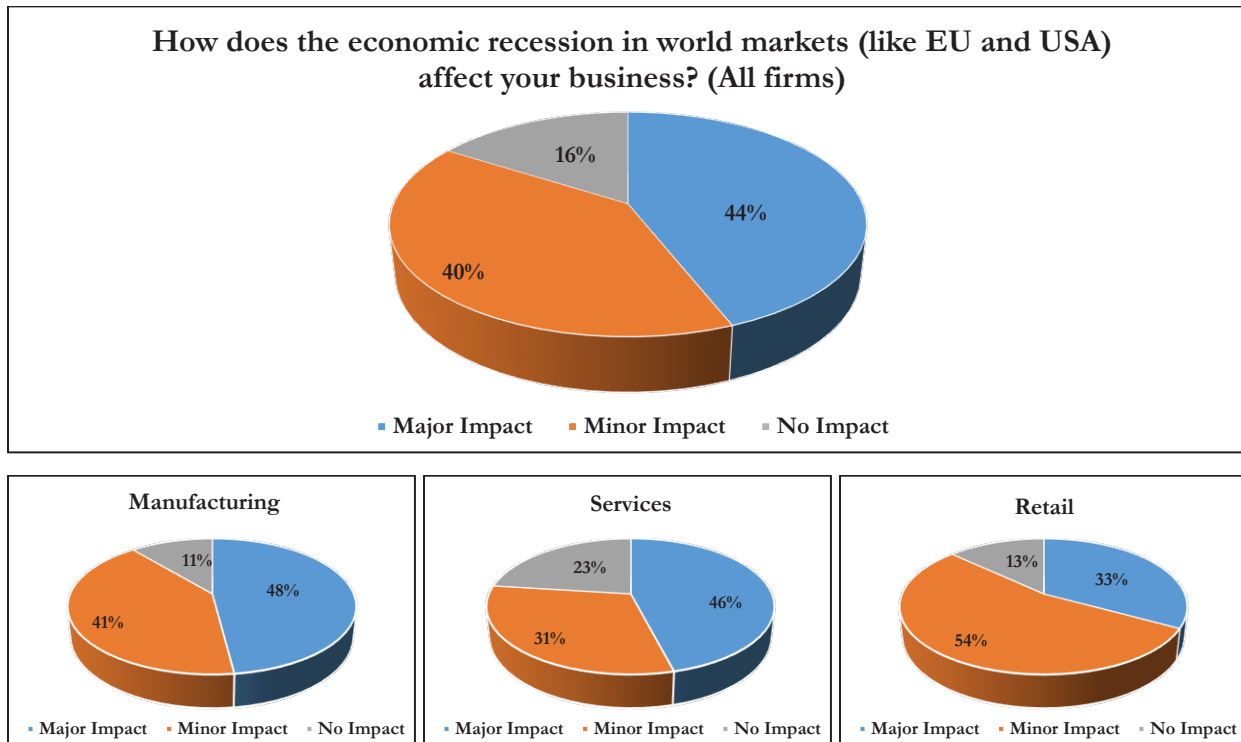


### 7.11. Economic Recession in the World Markets

Firms were asked how the economic recession in the world markets impacts their business. Economic recession in the world markets seems to an increasing concern for the business community. Last year, 40% of firms had considered the economic slowdown in world markets to affect their business, while this year a

larger percentage (44%) firms considered it to have a major impact on their business, and the economic recession in international markets like the EU and USA seemed to be relatively more important for firms in the manufacturing and services sector as compared to the retail sectors. These results are illustrated in Figure 7.11.

Figure 7.11:



## 8. Conclusion

Over the course of this year, the Pakistan's economy has encountered a number of challenges including a significant increase in its trade deficit compared to the previous fiscal year. Currently, the economy is in the process of stabilizing and it is essential that the policies addressing the economic needs of the country and of the business community are revisited taking into account the global changes and international competitiveness.

The Lahore School of Economics and the Lahore Chamber of Commerce & Industry recently conducted a third business confidence survey of firms to determine the industry specific and general macroeconomic trends prevailing in the local markets/industries. The survey was conducted selecting a variety of firms across three important sectors viz. the manufacturing sector, the services sector and the retail sector. The findings of the survey indicate that the country's retail and manufacturing sectors, were still in the process of recovery during 2016, whereas the services sector excelled and performed the best of all the three sectors.

The survey found that the slowdown in retail and manufacturing sectors resulted mainly due to decline in country's exports. When asked about the reasons for lower export sales, firms pointed to unstable exchange rates, the domestic energy crises, changes in global market preferences and inappropriate government policies. In terms of policies to boost flagging exports, the firms pointed to un-interrupted electricity and gas supply, lower cost of raw material & labour, friendly and trade specific government policies and increased access to foreign buyers as some of the major requirements for improving the performance of exports of the country.

The survey results indicated that exporting firms have limited export destinations (with most exports going to Asia and Europe) and at the same time most firms only export one major product to their export market. This strongly implies that firms in collaboration with the government need to expand and diversify their product base and explore newer markets for products in order to optimize their role and share in the international markets.

On the other hand, the higher growth of the service sector has given a new dimension to economic growth in the country especially since it accounts for more than 50% of Pakistan's GDP. The analysis showed that while the manufacturing and retail sectors registered declines in their export growth, sales growth and employment rates, the service sector emerged as a key sector recording higher growth and employment rates which may contribute positively to poverty reduction. This suggests that the government should formulate strategies to encourage firms and find new avenues to further improve the growth in this sector.

The survey results showed that both the manufacturing and the retail firms slowed down in terms of sales, investment and size. Further, these sectors seem to be uncertain and are not planning to increase their investment and employment levels in the current year (2017). However, one positive result of the survey is that the firms across all sectors have expressed confidence in the banking sector by increasing their borrowing levels in 2016. Hopefully, in the prevailing circumstances, the financial sector can continue to play a constructive role by providing more easy access to finance.

**Lahore Chamber of Commerce & Industry and Lahore School of Economics Business Confidence  
Survey 2017 with special emphasis on Pakistan's Exports**

The current year's survey also aimed to study the possible impact of China-Pak Corridor (CPEC) on the business sector in Pakistan. The analysis of the results showed that the business community was generally positive about the initiative.

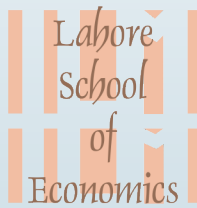
The sector wise analysis of the impact of some other important factors showed that the manufacturing sector firms indicated Access to Finance, Energy Shortages and Import & Custom Duty Policies as the most important factors, the services sector firms indicated Provincial Taxes and Import & Custom Duty Policies. Whereas the retail sector firms indicated Provincial Taxes, Access to Finance and Provincial Commercialization Costs & Policies as the most important factors affecting their business.

Overall, the majority of firms also had their concerns about the Law and Order Situation

and Import and Custom Duty Policies which according to them had major impacts on their growth. Most of the firms however, found the deteriorating law and order situation having more adverse effects on the growth than the energy crisis. This issue points to the need of addressing the security related issues to create a stable environment in the business/ industrial sector.

Finally, the firms attributed the drag on economic growth to the inconsistent and cumbersome policies, regulations and taxation of the Federal and the Provincial governments. They felt that while regulations and taxations were important, they must account for the needs and requirements of the business community. The collaboration between the government and the business community and the joint efforts by them in developing a workable industrial strategy can promote the growth.





**ITC**  
Innovation and  
Technology Centre



**Lahore Chamber of  
Commerce & Industry**

# Business Confidence Survey 2017

