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“Business is almost suspended because of government’s policies”

Shujauddin Qureshi August 18, 2019 1 Comment

Interview with KCCI president Junaid Ismail Makda


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Junaid Ismail Makda is president of the Karachi Chamber of Commerce and Industry (KCCI). He has been in the manufacturing business for 25 years. He has been chairman of the Pakistan Hosiery Manufacturing Association for many years, still working with the association at the leadership level. Makda became Vice Chairman of the KCCI in 2010. At KCCI, he helped establish linkages with chambers in other countries. He floated the idea for a joint chamber of commerce with the Mumbai Chamber of Commerce. In fact, in 2010 he proposed to former president, General Pervez Musharraf, that three joint chambers of commerce be formed between Pakistani and Indian cities to promote bilateral trade: Karachi-Mumbai, Lahore-Delhi and Federation of Pakistan Chambers of Commerce and Industry and Federation of Indian Chambers of Commerce and Industry. Makda was also involved in the formation of Pakistan-Afghanistan joint chamber. After becoming President of KCCI in 2018 he tried to bring drastic changes in the KCCI by-laws. He worked to remove many anomalies and made some new bye-laws which were approved by the general body of the KCCI and submitted to the Directorate General of Trade Organisations.

The News on Sunday: The national budget for the fiscal year 2019-2020 has drawn strong reaction from the business community. What are your main concerns about the budget?

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Junaid Ismail Makda: We had submitted our pre-budget proposals to the government but the government did not consider many of those. After the budget was announced we contacted the government and a meeting was held in which the government agreed to accept many of our demands. A committee was formed and discussed the issues at length. The main demand was the removal of the statutory regulatory order (SRO) 1125 (exemption of five zero-rated exporting sectors). The government said: 1) Some local manufacturers were benefitting from this zero-rated facility, which was only meant for the exporters, ii) the importers in connivance with exporters, imported the raw material in excess of the actual need without paying 17 percent GST and the excess quantity was sold in the market to the local retailers, thus they cheated the government and iii) the exporters parked their export proceeds abroad through under or over-invoicing. We did not agree. We pointed out that when export proceeds arrive in the country they come through the State Bank.

We also asked the government side why if they thought that there were some anomalies in the zero-rated facility, had they not tried to correct it before completely scrapping it? We said the FBR officials made decisions on their own while sitting in their air-conditioned offices and did not have any idea about the ground realities.

We suggested to the Prime Minister Imran Khan to bring these issues on record before withdrawing the facility. We also asked him why his government had not withdrawn discretionary powers of FBR officers under various sections of the SRO 1301. This SRO provides overwhelming powers to the Directorate General of Intelligence and Investigation, Inland Revenue to access all national, provincial and other databases for collection of relevant information for probing cases of under-reporting, tax evasion, tax fraud and revenue leakage.

We have held several meetings with Mr HammadAzhar, and Razzak Dawood. They say they do not know about discretionary powers of the FBR officials under SRO 1301. We have told them that instead of grilling traders under various clauses of the SRO 1301, they can decide on the spot cases of under invoicing, over-invoicing, or false declarations. We have also asked them why they are not using the powers to arrest and confiscate goods if they find any wrongdoing? They can impose fine, on-the-spot. I do not want under-the-table deals with the FBR officials.

TNS: Have any of KCCT's recommendations been incorporated in the budget? Do you think the government is taking the right economic decisions?

JIM: We had submitted our proposals long before the announcement of the budget. These proposals cover exemptions and anomalies causing substantial revenue losses, restructuring of tax administration and tax reforms, revenue leak due to fake invoices, obstacles to broadening of the tax base and heavy reliance on indirect taxation, multiple and repeat audits, obstacles to EODB and discretionary powers – a source of corruption and deterrent to broadening of the tax base. We also proposed to make changes in the relevant laws to restore the confidence of the business community in the policies adopted by the government.

Some people wrongly believe that the devaluation has benefited the exporters. The foreign buyer knows the developments taking place in Pakistan. After the devaluation they have asked us for fresh discounts. The government has put us in a tight corner.

The government has made economic decisions in view of the IMF conditionalities. They have decided to give a free hand to the OGRA, the NEPRA and the State Bank of Pakistan. The dollar has sky-rocketed.

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Since there is big difference between imports and exports, the government has imposed regulatory duty (RD) to discourage imports. RD is still there on many items despite the fact the government has revised import tariffs and withdrawn exemption facilities. We say once the tariff commission has fixed the rates why is RD still there? RD should be a temporary step to discourage imports till duty rates are determined. We need to get rid of double standards.

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When the government increases input costs how can one use the same rates? We cannot pay more taxes from our pockets. Our profit margins have shrunk.

TNS: There is a perception that the business community is resisting the government's efforts to document the economy. How fair is this perception?

JIM: It is a false perception. We have asked the government to broaden the tax net. During a meeting I told the prime minister that Karachiites pay the most taxes.

The prime minister asked us how to increase our GDP growth. I said it will not increase because bureaucracy is more powerful today and is putting a lot of pressure on businessmen. The bureaucracy issues notices to businessmen on a daily basis. They have no other option but to put their money in lockers and evade taxes. When legitimate transactions are not happening, the money will not circulate. The prime minister asked us how can tax recovery be increased? I told him that we were talking about only 20 percent documented economy because 80 percent of the Pakistani economy is black economy. Everywhere in the world, black economy is no more than 20 percent of a country's economy. In that meeting, the then finance minister, Asad Umer, said Karachi was paying 70 percent of the total taxes of Pakistan.

TNS: The government has withdrawn zero-rated facility to five exporting sectors: textile, leather, carpets, and surgical and sports goods. What will be the impact of the move on the country's exports?

JIM: Business activity in the country is almost suspended because of government policies. The direction given by the government is discouraging genuine traders. Due to removal of zero rate facility, so no major activity is going on at the exports front.

TNS: What five steps must the government must take to help boost exports and make us more competitive?

JIM: First of all, the government should consult traders before taking important economic decisions. It should remove all non-tariff barriers, especially for exporters. Second, we have to support our exporters in any case. Many countries are giving their exporters discounts on research and development and rebates on fuel charges so they can compete in the international market. Third, we have to facilitate exporters through the Trade Development Authority of Pakistan (TDAP). Exporters should be provided subsidies for participating in international trade fairs and exhibitions. Fourth, the tax net should be broadening, and the last step is we must curb smuggling.

TNS: What, in your in view, are the main problems Karachi's wholesale traders are facing these days?

JIM: Karachi's wholesalers are facing a lot of problems. Importers of food products are facing problems at the ports. The FBR issued the SRO 237 in February this year which imposed certain conditions on imported items, especially the Fast-Moving Consumer Goods (FMCG) and imported food products. The imported consignments shall have 50 percent of the shelf life, calculated from the date of filing of Import General Manifest (IGM), instead of 66 percent (2/3rd) of the shelf life remaining from the date of manufacturing. It has also asked importers to print labels in Urdu and English.

Importers are also facing problems because of restrictions by Anti-Narcotics Force. The ANF used to open containers of food items which damaged the items. The ANF did not use sniffing dogs. Now the situation has improved after we had negotiations with the government.

When the SRO 237 was issued I immediately rushed to Islamabad and held discussions with government officials. The SRO was cancelled and a new one, SRO 438, was issued which provided relief till 30th June. Quarantine department of Plant Protection is also creating problems for the food importers.

Smuggling is one of the main problems for traders. When a retailer can buy a product at a cheaper price, why will he buy the same product from an importer who is selling it at a higher price because he is paying duties?

TNS: What is the impact of devaluation of the rupee on the economy? To what extent has it increased input costs for industries?

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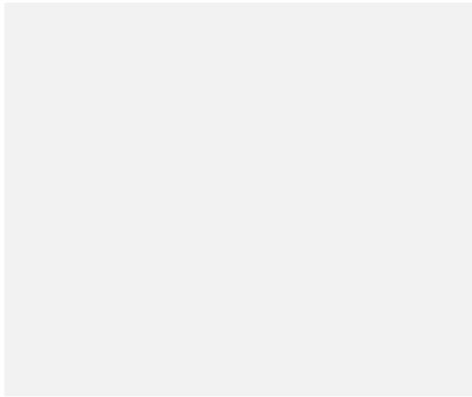
JIM: Devaluation has caused an increase in prices of all items, especially imported items. All imports have become costlier. Besides devaluation, gas, petrol, LNG prices have also increased, which has impacted the entire economy, including the industrial sector.

TNS: How do you view the existing industrial policy? What are your recommendations in making and enforcing one?

JIM: We don't have an industrial policy right now. No industrialisation is happening in Pakistan these days and many industrialists are closing down their industries. When this government came into powers last year it actually inherited grey listing under the Financial Action Task Force (FATF). But this government is determined to get off the grey list. They have successfully got the IMF deal, which was a pre-condition. We also hope that foreign investment would come to Pakistan and a direction for our economy would be set.

TNS: The law and order situation in Karachi greatly affects business activity. Have you noticed any improvement in that?

JIM: The law and order situation has improved a lot as a result of the Karachi Operation. But armed street robberies are back and street crime is on the rise. We have a police-KCCI Liaison Committee on our premises established many years ago. This committee does not receive any money from the government and each general body member provides funds for this committee to operate.



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The author is a senior journalist, currently working as development communication professional in Karachi.

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