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TRADE POLICY REVIEW

REPORT BY

PAKISTAN

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Pakistan is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Pakistan.

Contents

1 INTRODUCTION AND OVERVIEW

1.1. Pakistan's fifth Trade Policy Review comes at a time when the economy is recovering from a global pandemic. In 2020, while the world output shrunk by nearly 3.5%, Pakistan's effective COVID-19 response measures helped mitigate its impact on the economy. Pakistan's economy contracted by less than half a percent during FY2019/20 and rebounded rapidly to near 4% growth in FY2021. By population size, Pakistan is the 5th largest country (about 220 million) in the world and has so far successfully avoided morbidity/mortality rates experienced by some comparable countries due to the pandemic.

1.2. Several reforms and policy measures were implemented during the review period to improve investment climate and to liberalize trade:

i. To simplify and reduce tariffs and align the tariff structure with trade policy objectives rather than fiscal objectives, Pakistan is implementing a National Tariff Policy (NTP) 2019-24. In the first two years, tariffs were rationalized on more than 85% of the tariff lines. Nine-tenths of all tariff lines are now covered in five tariff slabs. Average applied tariff has decreased from over 14% to almost 12% in the last seven years. Despite recent surge in imports, the tariff rationalization drive will continue during the implementation period of the NTP. New institutional arrangements for tariff policymaking are expected to drive this momentum, going forward.

ii. To facilitate trade, Pakistan has implemented 86.1% of its WTO Trade Facilitation Agreement (TFA) commitments. Measures to improve trade facilitation, *inter alia*, include the establishment of Pakistan Single Window (PSW) that brings numerous departments and agencies on a single platform to streamline trade regulatory requirements, Web-based One Customs (WeBOC) electronic system, pre-arrival processing and capacity enhancement of Pakistan Customs officials.

iii. Under the Integrated Transit Trade Management System (ITTMS), Pakistan is working towards modernization of border crossing points (BCPs) including Torkham and Chaman (with Afghanistan) and Wagha (with India) to shorten port dwell time. Under this project, the Government of Pakistan is establishing Pakistan Land Port Authority to regulate and support the infrastructure being built while also focusing on the modernization of dry ports and off-dock terminals. The project is pivotal in improving competitiveness, regional value chain integration, connectivity and export enhancement.

iv. To help improve domestic competitiveness, Pakistan has undertaken several measures including:

- Initiated regulatory reforms through Pakistan Regulatory Modernization Initiative (PRMI) to remove outdated regulations and make the necessary regulations more business friendly;

- Initiated and updated several sectoral policies, including Pakistan's first e-Commerce policy, Auto Policy, National Electric Vehicle Policy, Small and Medium Enterprises (SME) Policy and entrepreneurship schemes for the youth;

- Initiated an ambitious national programme for skills and technical development to support productivity improvements and employability, which includes the development and standardization of technical and vocational qualifications, accreditation of institutes, skills development and apprenticeship training.

v. To improve the Intellectual Property environment, the Parliament has passed the Geographical Indications (GI) Law; Pakistan joined the Madrid system of international registration Trademarks, and revised national IP laws to incorporate international good practices.

vi. To strengthen economic relations in the region, Pakistan has concluded Phase-II of China-Pakistan FTA; entered into a Strategic Economic framework with Turkey and launched preferential trade agreements negotiations with Thailand, Turkey, Afghanistan and Uzbekistan, in addition to reviewing the one existing with Indonesia. Pakistan also signed a bilateral Transit Trade Agreement with Uzbekistan and is in the process of renegotiating Afghanistan Pakistan

Transit Trade Agreement (APPTA). With the aim of enhancing regional trade, Pakistan is actively engaged with Kazakhstan, Kyrgyz Republic and Tajikistan on Transit Trade Agreements and assessing barriers to trade. In addition, major regional connectivity and logistics infrastructure works are well underway in Pakistan under the China-Pakistan Economic Corridor (CPEC), a part of the Belt and Road Initiative.

vii. To improve price and financial stability, and to increase predictability in domestic markets in line with best international practices, the Parliament is considering amendments to the State Bank of Pakistan (SBP) Act that will strengthen the autonomy and governance of the central bank.

viii. To make the policy environment stable, predictable and non-distortionary, the process of issuing Statutory Regulatory Orders (SROs), which previously allowed the Federal Board of Revenue discretionary administrative level authority to make ad hoc changes, has been revised. The Federal Board of Revenue cannot issue regulatory orders pertaining to financial matters by its own unless approval is solicited from the competent authority i.e., the Federal Government in majority of the cases. Matters to the extent of import duties are now reviewed by the newly instituted Tariff Policy Board and approved by the Cabinet or the Parliament, as the case may be.

ix. While the economy is gearing towards a more sustainable growth model, there remain internal and external risks that can dampen the effectiveness of government's efforts:

a. Pakistan continues to be impacted by the ongoing COVID-19 driven economic crisis. Growth is rebounding world over, but the surge in demand combined with continued supply chain and labor market disruptions has led to an uptick in global inflation. Moreover, a surge in global energy prices along with depreciation of the Pak Rupee has contributed to a surge in domestic prices. Uncertainty remains high because of various reasons including new variants of the virus.

b. Historically, the situation in Afghanistan has had multiple spillover effects on Pakistan and its economy due to many reasons including a long and porous border that the two countries share:

- The consequent security issues have had substantial financial and economic implications for Pakistan, as resources are deployed to respond to security threats. Security concerns also impact the investment climate, particularly for foreign investors, and have dampened investment in Pakistan for the last many decades;

- The recent suspension of aid flows, freezing of central bank reserves and international sanctions on Afghanistan has meant that Afghans' access to foreign currency is limited and is being met informally through Pakistan, which has added to the substantial pressure on the Pakistani rupee;

- Faced with drought and with the exit of NATO led forces, Afghanistan's already vulnerable population is facing a humanitarian crisis. Formal and informal movements of foodstuff from Pakistan are adding to inflationary pressure on basic food items in Pakistan. In addition, Pakistan is meeting the needs of the 3 million Afghan refugees that have sought shelter in Pakistan over the last few decades, putting considerable strain on its limited financial resources.

c. Pakistan has been facing a balance of payments crisis and is in an IMF programme (Extended Fund Facility – its 22nd programme) since July 2019. Pakistan has successfully completed the first reviews under the programme, while staff level agreement on the 6th review has also been reached. Pakistan is undertaking measures to break out of the structural problems that have led to boom-bust cycles of growth and repeated macroeconomic stress over the decades.

d. Fiscal fundamentals remain chronically imbalanced, driven primarily by persistent losses by state owned enterprises and a low tax-to-GDP ratio. These pressures are currently exacerbated by COVID-19-related social protection expenditures, and those related to dealing with the Afghanistan war and its aftershocks. A youth bulge dominates Pakistan's

population, and the Government is gearing to leverage it positively by investing in skills development and job creation. These, and other socioeconomic programmes can exacerbate the fiscal stress.

1.3. These challenges mean that Pakistan's fiscal and external balances remain under persistent pressure and there is limited space to pursue the broader objectives of trade and tariff policies more aggressively. As a result, while Pakistan remains committed to a long-term agenda of trade liberalization and domestic competitiveness, the ambitions are moderated by its immediate priorities to alleviate poverty, create employment, stabilize prices and address macro-economic imbalances.

2 ECONOMIC AND TRADE ENVIRONMENT

2.1 Pakistan's economy

2.1. Pakistan's economy has shown remarkable resilience since the pandemic hit the country. While manufacturing was hit hard and contracted by 7% as export destinations went in a lockdown, it rebounded with a sharp recovery in FY2021. Overall, Pakistan's GDP growth has averaged just under 4% in the period under review (Table 1).

Table 1 Real GDP growth rate, 2014-21

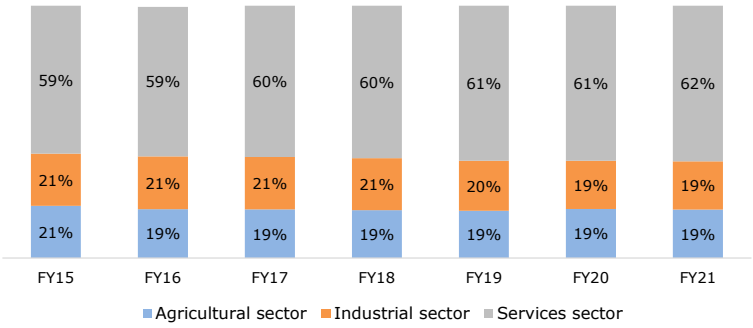
Sector/industry	FY14	FY15	FY16	FY17	FY18	FY19[F]	FY20[R]	FY21[P]
Agricultural sector	2.50	2.13	0.15	2.18	4.00	0.56	3.31	2.77
Industrial sector	4.53	5.18	5.69	4.55	4.61	-1.56	-3.77	3.57
1. Mining and quarrying	1.40	4.97	6.19	-0.60	7.80	1.20	-8.28	-6.49
2. Manufacturing	5.65	3.88	3.69	5.83	5.43	-0.69	-7.39	8.71
3. Electricity generation and gas distribution	-0.74	13.48	9.39	-2.69	-17.21	13.57	22.40	-22.96
4. Construction	5.96	7.26	13.68	8.95	10.83	-15.50	5.46	8.34
Services sectors	4.46	4.36	5.72	6.47	6.35	3.79	-0.55	4.43
GDP growth rate	4.05	4.06	4.56	5.22	5.53	2.08	-0.47	3.94

F Final.
R Revised.
P Provisional.

Source: Pakistan Bureau of Statistics.

Figure 1 Share of GDP components, 2015-21

(%)



Source: Pakistan Bureau of Statistics.

2.2. The services' sector continues to grow faster than agriculture and manufacturing, contributing over 60% to GDP. The contraction in the industrial sector is a cause for concern, as it signals early de-industrialization. Consequently, recent economic and trade policies are geared towards rebooting industrialization. There are early signs of growth in construction, cement, textile, automobile and power sectors.

2.2 Trade and external balances

2.3. Pakistan's exports of goods reached USD 25.3 billion in FY2020/21, while exports of services were valued at USD 5.9 billion. Garments and textiles make up around 61% of Pakistan's goods exports, while agricultural products make up another 19%. Exports are relatively unsophisticated and low value-added, and therefore exhibit low responsiveness to global economic growth. Encouragingly, latest data shows that Pakistan is moving on a trajectory of higher-value exports. This trend needs to be strengthened and accelerated. Pakistan intends to solidify these gains, for example by utilizing the European Union GSP+ scheme for a wider range of products.

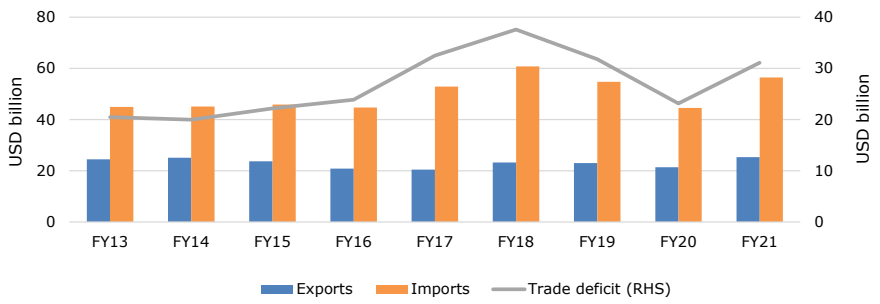
2.4. The value of imported goods and services – USD 54 billion and USD 7.8 billion respectively – is more than twice that of exports. The two largest import categories are fuel (representing 29% of the import bill), followed by capital and transport (22% of the import bill), both of which are critical inputs into the productive sectors of the economy. Pakistan's dependency on imports of imported fuel, raw materials and capital goods has meant that episodes of high domestic growth have led to large expansions in imports without a commensurate increase in exports, leading to current account deficits.

2.5. With exports insufficient to cover the imports bill, Pakistan has depended on the high and growing inflow of remittances, valued at USD 29.3 billion in 2021, and on official and private financing to pay for imports. This leaves Pakistan vulnerable to external shocks that influence these flows, such as energy (oil and gas) and commodity prices.

2.6. In addition, high inflows of remittances and Afghanistan war related funds have kept the exchange rate high and contributed to low international competitiveness for Pakistani products. Historically, exchange rate was also kept inflexible and overvalued as a policy decision, leading to high consumption of imports and underdevelopment of the export sector. To break out of the cycle, the exchange rate has now been allowed to be more responsive to market forces. Consequently, the Pakistani rupee has depreciated 30% in the last three years. In addition, some of the demand for foreign exchange in Afghanistan is currently being met informally through Pakistan, adding pressure on the rupee that was already in sharp decline.

2.7. Without the stability of a strong export sector, Pakistan is subjected to frequent balance of payments crisis. In July 2019, Pakistan entered an IMF programme (Extended Fund Facility) to address the balance of payments crisis. There are ongoing negotiations with the IMF on the resumption of this programme following a COVID-19 related pause.

Figure 2 Exports, imports and BOP, 2013-21



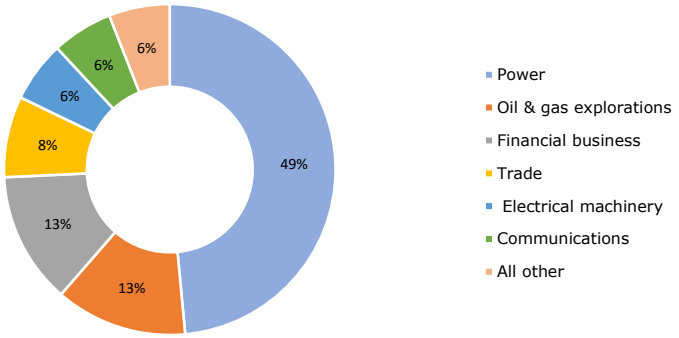
Source: Pakistan Bureau of Statistics.

2.3 Investment

2.8. FDI inflows to Pakistan (USD 1.86 billion in 2021) are largely stagnant and focused on power, oil and gas and financial sectors. While Pakistan has an attractive market size, the poor security situation, partly resulting from the Afghan war, low energy availability, high regulatory compliance burdens and low productivity have contributed to low investment. During the review period Pakistan has made substantial improvements in the supply of electricity and is continuing to work on transmission losses and pricing. Work on regulatory compliances and productivity is also well

underway, which will help in attracting FDI subject to improvements in the pandemic situation and stability in Afghanistan.

Figure 3 Net FDI 2021, sectoral breakdown



Source: Pakistan Bureau of Statistics.

2.4 Fiscal balances and debt

2.9. As with the current account balance, Pakistan's fiscal balance also remains chronically imbalanced, driven primarily by persistent losses by state owned enterprises and low tax-to-GDP ratio. These pressures are currently exacerbated by COVID-19-related social protection expenditures, and those related to dealing with the Afghanistan war and its aftershocks. Against the backdrop of these challenges, the fiscal performance remained satisfactory due to the Government's efforts at fiscal consolidation, prudent expenditure management and effective resource mobilization. The fiscal deficit was contained at 8.1% of GDP in FY2020 against 9.0% of GDP recorded in FY2019.

2.10. The fiscal and external deficits, unprecedented COVID-19 related situation and exchange rate depreciation have had an adverse impact on Pakistan's debt burden. The gross debt to GDP ratio in Pakistan has increased from 72.1% in FY2018 to 83.5% in FY2021 after peaking at 87.6% in FY2020.

2.5 Regional context

2.11. Pakistan shares borders with Afghanistan and Iran on the west, India in the east, and China on the north; (with the Arabian Sea in the south). Collectively these countries account for 28.5% of world trade and 22% of world GDP. Yet the region remains one of the least integrated in the world as political challenges i.e., Afghan wars, global sanctions against Iran, and disputes between Pakistan and India have so far impeded effective economic cooperation.

2.12. The most pronounced challenge among these have been the wars in Afghanistan and their spillovers. The wars have led to intermittent waves of refugees from Afghanistan[1], a number that is increasing following the recent NATO exit from Afghanistan. Furthermore, two decades of increased terrorist attacks in Pakistan have had economic and security implications. Pakistan's own resources were diverted to countering these impacts, and the risky investment climate has led to capital flight, and compromised Pakistan's ability to attract investment and grow its trade with Afghanistan and Central Asia. Pakistan has also had to deal with informal trade, influx of drugs and weapons into the country, law and order deterioration in border areas and leakage of foreign currency.

2.13. On the western border, Iran has been under global sanctions since 1979. These international sanctions led to an absence of payment infrastructure between Pakistan and Iran. In this context, Pakistan's long border with Iran is also problematic, as it enables more informal than formal trade.

2.14. On the east, Pakistan shares a border with India - the world's 6th largest economy with an import market of about USD 600 billion. There is a large trade potential between the two countries, which has not so far been realized due to various reasons. Apart from bilateral trade regional integration in South Asia has also been impeded, including the efficacy of South Asian FTA (SAFTA).

[1] Since late 1970s Pakistan has hosted a large number of Afghan refugees; hovering around 3 million.

2.15. While Pakistan is located in a region that is facing political and security challenges, it is explicitly moving towards a policy of geoeconomics: leveraging its location and market size for economic gain, prioritizing economic security, and promoting peaceful resolution of outstanding political issues.

2.16. The Afghan war has now ended and while the situation remains fluid, there is hope that this will improve stability and regional trade. Moreover, Pakistan is engaged in efforts to leverage its strategic location, which provides the shortest port access to Afghanistan, Central Asia and Western China, to improve regional integration, including through energy trade.

3 ECONOMIC AND TRADE POLICIES

3.1. Pakistan has undertaken several reforms and policy measures to address the structural issues that have been outlined above, to improve domestic competitiveness, reindustrialize the economy and build a stronger export base. At the same time, there has been a strong focus on social protection and creation of employment to provide for and leverage Pakistan's large and young population, and to help in recovery from the global pandemic.

3.1 Strategic Trade Policy Framework 2020-25

3.2. The Strategic Trade Policy Framework (STPF) 2020-25 aims to enhance Pakistan's export competitiveness and transform Pakistan from a factor-driven to an efficiency-driven economy, integrated into the regional and global value chains. Four critical enablers have been identified that would help achieve the STPF objectives: (i) Competitiveness Enhancement; (ii) Trade Related Investment; (iii) Integration into Global Value Chains; and iv) Export Ecosystem.

3.3. The framework identifies eighteen priority sectors, including both traditional sectors and new developmental sectors, based on international demand trends and the corresponding capacities and capabilities of different export sectors of Pakistan. The guiding principle is to focus most of the efforts in sectors that promise greater export opportunities and larger returns, allow diversification into non-traditional markets, and increase the share of exports in medium-to-high technological content products.

3.4. With an emphasis on export diversification, priority sectors road mapping developed by the Revenue Mobilization, Investment and Trade (ReMIT) programme, with the assistance of the International Trade Centre (ITC), is in its final stages. Sectoral Councils for stakeholder consultations, among other things, under STPF are also being established in this regard.

3.5. The STPF 2020-25 gives strategic direction to other trade related initiatives such as national tariff policy, transshipment, gender mainstreaming, and export-oriented entrepreneurship development, compliance with international standards, economic infrastructure development, domestic commerce and service sector. To ensure effective and timely implementation, the Government has formed National Export Development Board chaired by the Prime Minister to provide strategic guidance to increase export competitiveness and review trade policy implementation progress under the STPF.

3.2 National Tariff Policy (2019-24)

3.6. The National Tariff Policy (NTP), approved by the Federal Cabinet in October 2019, aims to liberalize and simplify the tariff regime during its implementation period. The basic objective of the NTP is to use tariff as an instrument of trade policy rather than merely fiscal considerations. The objectives of the NTP are to:

- Improve competitiveness of manufacturing sector through tariff rationalization;
- Increase employment opportunities by attracting investment in the manufacturing sector;
- Reduce distortions in the domestic price structure;
- Removing anomalies in the tariff structure which is causing distortions between sectors and with-in the value chains.

3.7. Major institutional changes include establishment of the National Tariff Board, housed in the Ministry of Commerce (MoC) and technically supported by the newly set up Tariff Policy Center (TPC). The TPC is performing a key role in conducting research and analysis for reform proposals and helping build consensus on reform amongst stakeholders. Simultaneously, a Tariff Policy Wing has been constituted in the MoC to steer the reform programme through government institutions and platforms.

3.8. In the first two years of the implementation of NTP, tariffs have been rationalized on more than 85% of the tariff lines. Nine-tenths of all tariff lines are now covered in five tariff slabs. Average applied tariff has decreased from over 14% to about 12% in the last seven years. Despite the recent surge in imports, the tariff rationalization drive will continue during the implementation period of the NTP, till 2024.

3.9. To make the policy environment predictable and non-distortionary, the process of issuing Statutory Regulatory Orders (SROs), which previously allowed the Federal Board of Revenue discretionary power to make ad hoc changes to taxes, regulatory duties and procedures, has been changed. Presently, decisions regarding imposition or removal of import duties are taken by the Federal Cabinet and in certain cases by the Parliament on the recommendations of the Tariff Policy Board.

3.3 Trade Facilitation and Promotion measures

3.10. Pakistan has made substantial efforts to improve border management and facilitate trade during the review period, which has resulted in an improvement in the World Bank Trading Across Borders ranking from 169th in 2016 to 111th in 2020.

3.11. Since Pakistan has joined the Trade Facilitation Agreement in 2015, it has implemented 86.1% of its TFA commitments.[2] This includes Temporary admission of goods and inward-outward processing, electronic payments, risk management-based clearance and audits and uniform documentation procedures. The Trade & Transport Facilitation Unit will focus next on advance rulings, improvement in average release times, enhancing cooperation amongst various border agencies, Authorized Economic Operator (AEO), and implementation of Pakistan Single Window (PSW).

3.12. PSW will become a single-digital-window interaction between private sector and government agencies. It will be implemented in a phased manner starting with PSW Lite, slated for deployment in March 2022, bringing numerous agencies and departments on a single platform to streamline import, export, and transit regulatory requirements. Eventually, PSW will become part of a larger National Single Window that will further integrate other national agencies leading to an additional reduction in time, cost, and complexity of regulatory compliance.

3.13. Pakistan relies on customs cooperation to reduce regulatory compliance at the border. This includes signed MOUs for customs cooperation with Afghanistan, Turkey, India, UAE, US and Islamic Republic of Iran through electronic data interchange for faster clearance, reduced misdeclaration and better risk management. In addition, such agreements are also being finalized with Republic of Korea, ASEAN countries, Kingdom of Saudi Arabia, Russian Federation, and European Union. Similar cooperation under China-Pakistan FTA Phase II has led to reduction of discrepancy in China-Pakistan trade data.

3.14. To counter the issues of smuggling of goods and contraband, and regulate the movement of people, Pakistan's borders are being fenced. Following the completion of this fence, all cross-border movements will be regulated via sixteen designated crossing points that are being developed for monitoring and documentation across borders.

3.15. In order to curb smuggling of goods and contraband, the Government has rationalized tariffs of smuggling prone items and invested in improved capacity at border crossings. The Federal Board of Revenue's capacity building measures included: (1) equipment-procurement and staff-recruitment under Border Management Initiative, (2) awareness campaigns, (3) special budgetary allocations, (4) additional security checks on appointment of officers, (5) linking clearance

[2] Category A (25.6%), Category B (40.3%), Category C (20.2%).

of goods to provision of foreign invoice and (6) extending advance rulings. These measures, apart from plugging leakages, will also facilitate transshipment in the country by reducing release times.

3.16. In order to promote regional integration, Pakistan is implementing the Integrated Transit Trade Management System (ITTMS), which is modernizing its Border Crossing Points (BCPs) - with state-of-the-art ICT equipment, and physical infrastructure - namely Torkham, Chaman (with Afghanistan) and Wahga (with India). In order to manage and regulate the facilities the Government has decided to create an organization called Pakistan Land Port Authority (PLPA). This pilot project will eventually be expanded to other border crossings and dry ports, helping reduce costs and processing time for border trade.

3.17. Pakistan and China have had historical relations and have built on this to strengthen Pakistan's domestic and regional trade infrastructure under China Pakistan Economic Corridor (CPEC) - a flagship initiative of China's Belt and Road Initiative. Initiated in 2015, CPEC comprises improved road, rail and air transportation, port and SEZs development, energy and fiber-optic cable networks, in addition to industrial, agricultural and academic cooperation. This ambitious initiative aims to promote not just the bilateral relationship between the two countries but is also expected to contribute to broader regional integration.

3.18. On its border with India, apart from the ITTMS pilot project at Wagha crossing, Pakistan has also opened a visa-free border crossing at Kartarpur Corridor[3] that would help increase people-to-people contact that would hopefully evolve into greater economic cooperation in the future.

3.19. The period under review saw improved operationalization of multiple projects in Gwadar –an upcoming deep-sea port –with installation of three new quay cranes, start of desalination plant, and initiation of construction of East-Bay Expressway, Gwadar Airport, and power plants. This development complements the Pakistan Uzbekistan Transit Agreement to allow Gwadar to realize its potential as a transit trade hub for Chinese, Central Asian, Afghan and Iranian transit cargo. This cargo will be transported efficiently under the ambit of National Freight and Logistics Policy 2020.

3.20. The National Freight and Logistics Policy 2020 aims to lower inefficiencies in Pakistan's logistics and transport landscape. Key policy actions include creation of Pakistan Courier and Logistics Regulatory Authority (PCLRA), e-Commerce infrastructure, Custom-Data-Exchange with Afghanistan and integrating multi-modal transport logistics into WeBoC software. In addition, during the review period, Pakistan has introduced incentives for toll-manufacturing that would help Pakistan better integrate with Global Value Chains.

3.21. Pakistan has seen progress in acceding to the Revised Kyoto Convention, ATA Carnet Convention, COTIF (Convention on International Carriage by Rail) and TIR. Pakistan acceded to TIR convention in July 2015, with the first transit-shipments reaching Uzbekistan in May 2021. Experience from operating TIR convention with Uzbekistan will help Pakistan extend this facility to its other regional partners.

3.22. Pakistan has also planned a border markets initiative aimed at promoting livelihoods of locals in border areas impacted by the anti-smuggling initiatives. A total of 15 border markets would be established along Pakistan's border with Afghanistan and Iran. Initially, three pilot-markets have been operationalized on the border with Iran. These markets will allow trade of goods on concessionary tariffs rates and therefore become a source of income and affordable products for the locals.

3.23. Apart from regular customs procedures, Sanitary and Phyto-sanitary (SPS) standards are another major hurdle faced by Pakistani agricultural exporters. In order to reduce the burden of SPS related measures, a product focused Agriculture Wing was created at the Ministry of Commerce. In the immediate term, scanning of consignments for presence of COVID-19 is ensuring regular and safe agri-trade consignments.

[3] This initiative was undertaken by the Government of Pakistan to grant pilgrims from India visa-free access limited to a holy site located just across the border inside Pakistan.

3.24. For long-term SPS compliances, Pakistan took a two-pronged approach of developing domestic ability and improving cooperation with foreign partner-authorities in potential markets. Pakistan improved its ability to meet SPS standards for mango and meat exports by approving EU-Standard Mango Hot Water Treatment Plants; Meat processing facilities recognition by Malaysia & China and making progress on Halal meat certifications. In addition, Pakistan is currently negotiating Mutual Recognition Arrangements (MRAs) with China and Thailand on agricultural products. Pharma sector saw similar gains as the period under review witnessed Pakistan's first WHO accreditation of drugs.

3.25. Pakistan is creating a brand identity through the "Emerging Pakistan" initiative, information collection and dissemination. This is done through a large network of Trade and Investment Officers (TIOs) all over the world who are tasked with becoming a bridge between foreign and Pakistani firms and authorities and answering specific trader queries and issues. In addition, several seminars and exhibitions were organized with the aim to disseminate information on trade and investment issues.

3.26. Pakistan has also undertaken targeted initiatives such as the 'Look Africa Initiative', aimed at tapping into the emerging African market via trade diplomacy, institutional linkages, and investment promotion. Improved efforts at trade diplomacy include exhibitions, trade delegations, Africa based TIOs and Look Africa Trade Forums in major Pakistani export clusters. Institutional linkages comprise expanding commercial section reach, investment promotion, Joint Working Groups, setup of banking & transport channels and contacts between the Pakistani and African business communities. Pakistan is also initiating negotiations on bilateral and multilateral trade agreements for market access in Africa.

3.4 Bilateral and Regional Trade Arrangements

3.27. Pakistan is focused on improving economic integration with regional countries under the Government's vision of prioritizing geo-economies and leveraging Pakistan's position and endowments for the economic benefits of Pakistan and the region.

3.28. Pakistan successfully concluded negotiations for Phase II of China-Pakistan FTA, which became operational in January 2020 and led to mutual reduction in 75% tariff lines for both countries. Pakistan has been allowed immediate zero-rated market access on 313 Chinese tariff lines in which Pakistan enjoys highly competitive advantage and export potential. The FTA also covered cooperation on customs' procedures and Electronic Data Exchange, which in turn has reduced misdeclaration of imports and helped Pakistan Customs plug revenue leakages. As a result, trade and investment between the two countries has increased.

3.29. Pakistan signed a bilateral Transit Trade Agreement with Uzbekistan in 2021. This was an important milestone since it will connect Uzbekistan and Central Asian Republics (CARs) with the Arabian Sea and also provide Pakistan and other countries with shorter access to CAR markets. Under the agreement, Pakistan is expected to have transshipment access to all of Uzbekistan's neighbors. The agreement facilitates regional integration by allowing transshipment, border warehousing, mutual recognition of identification documents and visa-facilitation.

3.30. To enhance bilateral trade with the region, Pakistan is negotiating Preferential Trade Agreements with Afghanistan and Uzbekistan.

3.31. Pakistan and Afghanistan are in the process of renegotiating the Afghanistan Pakistan Transit Trade Agreement (APPTA) to simplify the transit and customs procedures leading to reduction in cost and time for the traders.

3.32. Pakistan is engaged with Turkey to transform their historical ties into a strategic economic partnership, by signing a landmark Strategic Economic Framework (SEF) in 2020, which contains a 71-point plan of action, as the "roadmap for deepening economic cooperation" covering, *inter alia*, promotion of trade, commerce, industries, science and technology, industrial collaboration, tourism, health and education sectors. The Joint Working Group on Trade and Investment under the SEF contains more than 15 items relating to enhancement of bilateral trade and investment including conclusion of the preferential market access arrangement, elimination of Non-Tariff Barriers, developing linkages between companies of both countries, cooperation in e-commerce and other areas.

3.33. Pakistan is committed to increasing its engagement with the ASEAN countries. Pakistan signed comprehensive Free Trade Agreement (FTA) with Malaysia in 2007 and Preferential Trade Agreement (PTA) with Indonesia that became operational in 2013. Pakistan engaged Indonesia to review the PTA and enhance its scope to better achieve the overall aim of increasing bilateral trade. The engagement resulted in additional concessions on certain tariff lines of Pakistan's export interest. Both countries decided to further deepen the agreement and have started negotiations on Pakistan-Indonesia FTA since 2019. Pakistan is also well underway with negotiating an FTA with Thailand.

3.34. Pakistan sees itself as a regional hub of energy trade in the future and is a partner in Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline and Central-Asia South-Asia (CASA-1000) projects. TAPI is expected to transport 33 billion cubic feet of gas every year to South Asia, while the CASA-1000 power project aims to sell excess hydroelectric power from Kyrgyzstan and Tajikistan to Afghanistan and Pakistan. In both projects, Afghanistan and Pakistan are sharing the costs in order to alleviate their energy and power shortages, and the resultant trade imbalances arising from inelastic energy imports.

3.35. To better utilize its trade potential with Iran, Pakistan signed a PTA in 2004. In addition, the comprehensive Pak-Iran cooperation also includes Iran-Pakistan gas pipeline and supply of over 90 MW of electricity to Pakistan through the Tanavir interconnection. These initiatives are in addition to the border markets mentioned earlier.

3.5 Fiscal reforms

3.36. Pakistan is currently in its 22nd IMF programme, under which it is taking stabilization measures following standard IMF prescriptions including reforming tax through improved documentation efforts, automation, business registration, anti-smuggling efforts, risk management based financial scrutiny and electronic data exchange between trading partners.

3.37. Pakistan has rationalized expenditure by bringing down tax exemptions, improving debt portfolio and introducing budgetary reforms. These fiscal reforms are showing results as the fiscal deficit has decreased to 7.1% in FY2021 despite significant challenges due to COVID-19 led recession. Pakistan's primary deficit (the difference between the current year's fiscal deficit and interest payment on previous borrowings) has improved from -1.8% in FY2019 to -1.4% in FY2021.

3.38. In order to address the relatively high debt to GDP ratio, Pakistan has undertaken prudent debt management policies, such as diversification of debt instruments and investor base, facilitation of investment for non-residents and creation of a Central Debt Management Office which have increased the maturity profile of the public debt and lowered the Gross Financing Need (GFN) of the country.

3.6 Investment Policy and Investment Climate reforms

3.39. One of the pillars of the investment regime in Pakistan is creating an environment characterized by ease of doing business and investment facilitation. Pakistan has made good progress in reducing the cost of doing business. Some of the important steps include improvement in the time required to register companies, get construction permits, register commercial property and get commercial electricity connections. Tax rates for small firms have been reduced, and tax administration made easier and quicker. WeBOC Customs software has reduced time for processing exports and imports.

3.40. Pakistan has launched the Pakistan Regulatory Modernization Initiative (PRMI) in FY2020/21 to streamline the regulatory landscape. PRMI will deliver a comprehensive inventory and mapping of regulations, including a parallel, optional legal framework. This framework mandates eliminating all *Registrations, Licenses, Certificates and Other permits* (RLCOs) that are not legally backed, are unnecessary, unjustified, and non-business friendly. The remaining necessary RLCOs will be simplified and streamlined to make them more business friendly. In parallel, capacity building of public sector officials for undertaking regulatory reforms is also being undertaken.

3.41. Pakistan follows a liberal investment and facilitation regime to enhance foreign and domestic investors' confidence in the country. It is making efforts to realize the country's untapped potential

by creating effective Special Economic Zones alongside the China Pakistan Economic Corridor (CPEC), offering incentives, infrastructure and investor facilitation services.

3.42. Under the Investment Policy, Pakistan offers uniform treatment to local and foreign investments, up to 100% foreign ownership and 100% repatriation investment, profits and dividends in most of the sectors. Foreign companies are allowed to use borrowing facilities both from local and foreign banks with no upper limit and minimum requirement on the share of foreign equity and set up branch and liaison offices. Pakistan offers a facilitative business visa regime while offering 30-days single entry business visa-on-arrival facility for 66 countries.

3.43. In terms of business services, Pakistan allows online registration for foreign firms and also entitles business entities to sell shares, transfer ownership and de-register. To improve turnaround time, application processing procedures have been made time bound at seven weeks. In terms of basic infrastructure services, the pioneer industries are provided incentives at par with Special Economic Zones (SEZs) and are entitled to lease land without limitation. Similarly, no limitation is imposed on the transfer of any land held by a foreign investor and there is no restriction on foreign real estate developers.

3.44. A Special Economic Zones Act was passed in 2012 and then updated in 2016 with the objective of creating industrial clusters and infrastructure to meet the competitiveness requirements of investors and provide incentives at par with comparable countries. Under the Act, utilities and land connectivity is ensured by law alongside provision of duty and tax exemptions. Firms are allowed captive power generation and are provided seamless services through a single window facility. SEZs can be developed by private sector, public sector or through a public-private partnership. So far nine SEZs have been notified along with CPEC and four of them are being developed on priority basis.

3.45. To minimize regulatory risks of money laundering and terrorism financing, Pakistan took several legislative actions including the United Nations Security Council (UNSC) Amendment Bill, 2020 and Mutual Legal Assistance Act 2020 that laid the legal justification for Government-to-Government cooperation against illegal financial transactions and action against internationally banned individuals and organizations. Meanwhile Anti-Money Laundering (Amendment) Bill 2019, Benami Transactions (Prohibition) Rules 2019, Benami Transactions Ordinance 2019 and Anti-Terrorism Act Amendment Bill, 2020 further bolstered punishments for illegal financial transactions. Pakistan has now met almost all of the international standards for minimizing the risks of money laundering and terrorism financing.

3.46. During the review period, the State Bank of Pakistan introduced a new framework to ease investment exit rules for venture capital firms and foreign direct investors (October 2020). In addition, to attract investment in fintech and startups through holding companies, allow residents to acquire sweat equity and support exporters to establish a presence abroad, the State Bank has allowed trading through Special Convertible Rupee Accounts and Roshan Digital Accounts. Licensed Private Fund Management Companies are now allowed to provide private equity and venture capital fund management services to non-resident investors.

3.7 Infrastructure

3.47. Pakistan has taken several initiatives to improve its infrastructure. Chinese investment, in particular, has been instrumental in helping improve Pakistan's energy and transport infrastructure under CPEC, amongst many other sectors. Initiated in 2013, the CPEC project has four key areas including Gwadar Port, energy & transport infrastructure, and industrial cooperation. The long-term collaboration includes, (i) 4,668 km of multi-modal transport, (ii) development of nine SEZs, (iii) 820 km of fiber optic cables, (iv) 13,189 MW of Energy Projects, (v) 4 rail-based mass-transit projects and Gwadar Free Zone, (vi) people to people exchange, (vii) multilateral cooperation, (viii) industrial knowledge transfer, and (ix) academic cooperation.

3.48. During the period under review, Pakistan has also successfully resolved its longstanding issue of electricity supply. Energy shortage crippled Pakistan's economy during the initial part of the period under review leading to an annual GDP loss of 4-7%.[4] With a combination of multilateral and other

[4] Government of Pakistan Vision 2025.

initiatives, Pakistan successfully added 14,949 MW of installed generation capacity in the period under review.

3.49. The focus now is on reducing the costs, transmission losses and environmental impact of energy generation. For this, Pakistan has developed an Alternate and Renewable Energy Policy 2019 (ARE-2019) that aims to procure 30% grid-capacity from Alternate Renewable Energy technologies by 2030. Moreover, the Distributed Generation and Net Metering Regulations 2015 allows households and businesses to sell electricity to the grid from on-site solar installation. This was followed by Alternate and Renewable Energy Board Certification Regulations, 2018 which certified distributed energy service providers and established quality standards.

3.50. Simultaneously Pakistan has taken steps to improve energy efficiency and to lower Pakistan's carbon footprint by setting energy standards for home appliances and creating labs for measuring energy efficiency.

3.51. Pakistan is expected to supply South Asia with gas from energy-rich Iran and Central Asia. To prepare itself, Pakistan has taken several initiatives. Domestically, it has prepared itself for gas imports by investing in LNG Floating Storage Regasification Unit (FSRU) terminals, signing long-term supply agreements with Qatar and construction of North-South 1100-km long gas-pipeline. Moreover, oil transport will be facilitated via continued investment and development of White Oil Pipeline. Bilaterally, Pakistan is engaged with Iran, Afghanistan, Russia, China and India in Gas pipeline and electricity transmission infrastructure projects under TAPI, IP and CASA-1000 projects.

3.52. To facilitate maritime transport, Pakistan has started a Fleet Development Program (FDP) and Capacity Expansion at Karachi Port Trust, Port Qasim Authority (Karachi) and Gwadar. Apart from investment of more than USD 40 million in Gwadar Port, Phase-I of Gwadar Free Trade Zone has been completed with registrations of more than 30 enterprises. Construction work on Phase-II of Gwadar Free Trade Zone has also been initiated. Finally, the 700 km long Gwadar-Nawabshah gas pipeline is expected to improve Gwadar's integration into Pakistan's energy infrastructure.

3.53. Pakistani sea ports will eventually be connected to Pakistan's regional partners in the north via railroad. However, Railway's share of total freight carriage has failed to grow significantly. To improve this, Pakistan has begun railway reform with the goal of improving reliability, speed and reach of freight services. Under the CPEC portfolio, upgradation of existing and new railway tracks is being carried out. Work on the rail line-upgradation of ML-1 has started on fast track, which will result in a doubling of the entire track from Karachi to Peshawar. Hevellian dry port is also being constructed for harboring the cargoes. Other railway projects include mass transit systems in provincial capitals namely Karachi, Lahore, Peshawar, and Quetta.

3.54. The National Transport Policy of Pakistan (2018) – complemented by Pakistan Railway Strategic Plan (2018) and National Aviation Policy 2019 – has laid a clear framework for development of road, rail, air, pipelines, Inland Waterway, multimodal, urban, and rural transport. The policy recognizes that Pakistan's underdeveloped logistics industry does not provide a competitive cost structure. To support investment in cost-reducing infrastructure, the policy focused on the life-cycle-asset-management approach, building resilient infrastructure, environmentally sensitive development, and formalization of coordination mechanisms.

3.55. Pakistan, Afghanistan and Uzbekistan have signed a roadmap for the multi-billion-dollar Mazar-i-Sharif-Kabul-Peshawar railway track project in February 2021. Meanwhile, an Islamabad-Tehran-Istanbul freight train service, which had been inaugurated in 2009 but had gone out of service, has been re-inaugurated in December 2021 with a weekly service. Both measures are intended to support regional connectivity.

3.56. In addition, Pakistan plans to invest in developing Air Cargo Village Facilities and Cold Chain facilities, implement e-commerce cargo facilitation centers, use Electronic Data Interchange, utilize vacant-land, and operationalize transport capacity augmentation of the air space.[5] These

[5] Performance-Based Navigation (PBN), Air Traffic Flow Management (ATFM), Flexible Use of Airspace (FUA) and Controller-Pilot Data Link Communications (CPDLC).

investments would be facilitated via Public-Private-Partnerships, budgetary allocations, and engagement with regional and multilateral partners.[6]

3.8 Skills development

3.57. Pakistan recognizes the importance of skills to accommodate the 1.5 million young people that are expected to enter the Pakistani job market every year up till 2040. This surge in youth can yield a 'demographic dividend' by spurring economic growth if they are skilled and have access to high value jobs. Productive employment for this youth is imperative not just to alleviate poverty and provide a boost to the economy, but also to prevent potential social disruptions. This will be a huge challenge. Currently, Pakistan is ranked 125th of out 140 countries on skills in the World Economic Forum's Global Competitiveness Index (last available 2019) and 154th on the Human Development Index.

3.58. In order to equip the youth to play a productive role in the economy, Pakistan's Human Capital, National Vocational and Technical Training Commission (NAVTTC) has formulated a National Skills for All strategy in consultation with all key stakeholders with the aim to improve governance, provide more and better-quality training opportunities and remove policy fragmentation. The Skills for All programme implemented by NAVTTC is one of the largest interventions in Technical and Vocational Training (TVET) sector of the country and includes development & standardization of TVET Qualifications, accreditation of TVET institutes and teaching, skills development and apprenticeship training, establishment of business incubation centers and Smart Tech Labs for virtual skill development programmes.

3.9 Intellectual Property

3.59. Keeping in view the importance of a vibrant intellectual regime for attracting foreign direct investment and to secure the legitimate rights of the innovators under TRIPS, Pakistan has taken several measures to strengthen intellectual property protection. As a result, significant growth was witnessed in the number of IP applications, with over 100,000 IP applications received in the period under review.

3.60. To help establish a system for protecting indigenous products in international markets, IPO-Pakistan finalized Geographical Indications (GI) Law. Subsequently Geographical Indications (Protection and Registration) Act, 2020 was passed by the Parliament in March 2020, GI Rules were notified and a GI Registry will be established. A wide range of products have been protected under the GI Act and can be introduced in the international market as national brands of Pakistan.

3.61. Pakistan joined the Madrid international trademark system in February 2021. With the accession to the protocol, local brand owners in Pakistan can protect their trademarks in more than 100 countries by filing a single international application and paying a single set of fees at World Intellectual Property Organization (WIPO) via IPO-Pakistan. Similarly, foreign business can now be protected in Pakistan.

3.62. IPO Pakistan has started the revision of national IP laws and streamlining of the associated legal processes. Currently, the amendments are under submission to the Federal Government for approval.

3.63. IPO-Pakistan has expanded the number of regional offices and launching an interactive web portal for providing information and e-services. In addition, Technology Innovation Support Centers (TISCs) have been created across the country at leading universities, R&D institutions and chambers of commerce to promote indigenous applied research protected by IP laws in the country.

3.10 Sectoral policies

3.64. Pakistan has initiated and updated several sectoral policies, including Pakistan's first e-Commerce policy, Auto Policy, National Electric Vehicle Policy, Mobile Device Manufacturing Policy, Small and Medium Enterprises (SME) Policy and entrepreneurship schemes for the youth.

[6] World Bank, Asian Development Bank, USAID, and Korean Exim Bank.

3.65. Pakistan's federal cabinet approved the e-Commerce Policy Framework in 2019. The policy has led to fast-tracking of reforms to increase digital payments and cross border e-commerce. Pakistan is now included in the Amazon's seller list, allowing Pakistani SMEs and Women Entrepreneurs to sell their goods in the global market.

3.66. The framework provides guidelines on key components of e-Commerce including regulatory environment, financial inclusion and digitization through payment infrastructure, consumer protection, taxation, telecom infrastructure, and logistics. A National e-Commerce Council, chaired by the Commerce Minister and comprising high-level public and private representatives, has been established to monitor the implementation of the policy.

3.67. The National Payment Strategy (2019) improves regulations for facilitation of digital payments as a part of National Financial Inclusion Strategy (2015) and the e-Commerce Policy Framework (2019). This includes regulatory reform for branchless banking, fintech, electronic money institutions, and quick response (QR) code harmonization for contactless payments.

3.68. State Bank of Pakistan (SBP) Regulations for Electronic Money Institutions (EMIs), issued in 2019, have enabled a number of fintech startups to start operations. SBP has also released the Exposure Draft of Digital Bank Regulatory Framework that will facilitate an uptake of digital payments through wider access, lower fees, higher rates on deposits and easier criteria for account opening.

3.69. SBP has also implemented *Raast* - which is Pakistan's first instant payment mechanism that will enable end-to-end digital payments among individuals, businesses and government entities instantaneously with real time settlement.

3.70. Pakistan Customs has developed a separate module in WeBOC for Business-to-Consumer (B2C) e-commerce exports from Pakistan. The new system will facilitate documentation and allow commercial banks to register e-commerce traders in WeBOC. The State Bank of Pakistan has also issued new regulatory framework that reduces regulatory burden for cross-border movement of money.

3.71. In order to improve logistics for e-commerce, Pakistan Post has launched its first mobile application and export parcel service "EMS Plus" which facilitates small businesses to send their consignments / parcels abroad to any destination within 72 hours. Moreover, Pakistan Post has also set up "Pak Post Shop", an e-commerce initiative with hosting products from more than 550 companies. The lower delivery charges, shorter cash on delivery (COD) payback cycles (usually around 10 days on average), and greater coverage automatically pushes several SMEs to gravitate towards the services offered by Pakistan Post.

3.72. The National Small and Medium Enterprise (SME) Policy was approved in December 2021 to address core SME issues such as access to finance, business development services, market access and regulatory burden. A cohesive strategic framework for business facilitation has also been developed to support holistic implementation of the Policy.

3.73. Small and Medium Enterprises Development Authority (SMEDA) has launched SMEDA One Window (SOW) to provide solutions to start-ups and SMEs such as business idea validation, business registration and support for corporate branding, and trademark and copyright processing.

3.74. State Bank of Pakistan has introduced an innovative initiative, "SME *Asaan*[7] Finance" in August 2021 to enable SMEs to borrow up to Rs 10 million from banks without collateral. Under the scheme SBP will provide refinance to interested banks and will cover partial risk. SBP has also introduced schemes providing medium to long term financing for modernization of SMEs existing units or for setting up of new SME units. Similarly, short term financing is available for the working capital financing needs of SMEs.

3.75. Pakistan is also working to ease the regulatory and financial burden of taxation on SMEs. FBR has announced special tax regime for manufacturing sector SMEs from 1 July 2021 in which tax

[7] "Easy".

rates have been lowered for small firms. In addition, FBR has simplified the tax return form for small firms.

3.76. A new Automotive Industry Development and Export Plan 2021-2026 was announced in July 2021 to incentivize the production of cars with engine sizes below 1000cc, and electric and hybrid vehicles and to improve the competitiveness of the auto sector. Under the policy, duties on imported parts and sales tax on small vehicles have been reduced. The federal cabinet has also approved the National Electric Vehicle Policy in 2020, which targets 30% of vehicles to be electric by 2030.

3.77. In June 2020, the federal cabinet approved a Mobile Device Manufacturing Policy to incentivize local assemblers by, *inter alia*, removing duties on mobile device parts, removing fixed income tax on manufacturing devices, removing sales taxes on local devices and providing R&D allowance to local manufacturers. As a result, some globally renowned mobile companies have started manufacturing in Pakistan and smart mobile phones are also being exported.

3.78. There have been several initiatives to encourage entrepreneurship amongst the youth. These include *Kamyab Jawan*[8] Youth Entrepreneurship Scheme (PMKJ-YES) under which the Government has disbursed PKR 10,487 (USD 60 million) till May 2021 to the youth for businesses. The "Kamyab Pakistan" programme for small loans for businesses, farmers, households, and technical training, and the Bureau of Emigration and Overseas Employment that has registered 6,933 aspirants up till June 2021 for overseas employment in different countries.

3.11 COVID-19 Policy Response

3.79. Pakistan's effective COVID-19 response has helped keep COVID-19 related fatalities Pakistan low, with minimal disruption to economic activity. Consequently, Pakistan has been ranked in the top three, amongst 50 countries, for return to pre-pandemic situation by the Economist Magazine's Global Normalcy Index[9] in July and November 2021. The Government is continuing all efforts to the fight the pandemic, which is still raging across the world.

3.80. National Command and Operation Center (NCOC) was established as a nerve center to synergize and articulate a unified national effort against COVID-19. Pakistan adopted a smart lockdown strategy, where virus containment was built on a model of testing, tracking and quarantining. A technology platform was set up to help identify and isolate hotspots, use of aggressive social messaging allowing Pakistan to control the virus effectively to avoid a heavy toll on both the population and the economy.

3.81. NCOC also ensured quick and efficient supply chain management of critical items such as personal protective equipment, ventilators and diagnostic equipment that helped save lives of many patients and medical professionals. Similarly, vaccines were procured and administered effectively with 156 million vaccines doses administered across Pakistan, as of 1 January 2022.[10]

3.82. The Government took decisive policy actions to mitigate the socio-economic impact of COVID-19 and introduced a stimulus package of PKR 1.24 trillion (USD 7.8 billion) which included relief to daily wagers, cash transfers to low-income families, accelerated tax refunds to the export industry, financial support to SMEs and utility stores and relief in fuel prices among others. Pakistan's *Ehsaas*[11] programme leveraged the existing social protection data, infrastructure and digital capabilities to roll out one of the largest cash transfer programmes in the world.

3.83. Pakistan formulated an action plan to gradually open-up industry to minimize the impact on the economy. Firms with confirmed orders were facilitated to remain operational throughout the lockdown. To address the concern of business communities, high-level consultations with top exporters and business chambers were convened. Trade and Investment Officers stationed in Pakistan Missions abroad were issued directions to reach out to the concerned importers of Pakistani

[8] "Successful youth".
[9] Measures Current activity relative to pre-pandemic level.
[10] Viewed at: https://ncoc.gov.pk/.
[11] Urdu word for "feeling", "to care about".

products in cases where cancellation of orders was feared. The measures resulted in the industry and businesses retaining many vulnerable jobs.

3.84. The State Bank of Pakistan (central bank) took a number of policy measures to mitigate the negative effects of COVID-19 on the economy: (i) It reduced the policy rate by a cumulative 625 basis points from 13.25% to 7% from mid-March to June 2020; (ii) it introduced a refinance scheme at 3% end user rate for the medical sector, which enabled medical facilities to enhance their capacities such as building COVID-19 specific isolation wards and purchasing medical equipment; (iii) reduced the end user mark-up rates on Temporary Economic Refinance Facility (TERF) from 7% to 5%; (iv) introduced the Loan Extension and Restructuring Package of State Bank of Pakistan (Debt Relief Scheme) to facilitate borrowers in restructuring and deferment of their loans to preserve the solvency of the borrowers and enable them to combat the temporary economic disruptions; (v) Introduced SBP *Rozgar*[12] scheme to prevent layoff by financing wages and salaries of employees for six months.

3.85. At the multilateral level, including at the WTO, Pakistan is at the forefront for demanding a waiver from certain TRIPS obligations to diffuse production capabilities globally and make equitable access possible for all, to vaccines, diagnostics and therapeutics in order to fight the COVID-19 pandemic.

3.12 Sustainable Development and Social Protection

3.86. Pakistan remains committed to achieve the two aligned objectives of sustainable development and social protection. The country has affirmed its commitment to the 2030 Agenda for Sustainable Development by adopting the Sustainable Development Goals (SDGs) as its own national development agenda through a unanimous National Assembly Resolution in 2016. Similarly, social protection has a central role in government's agenda in mitigating the effects of economic and social shocks, climate change and natural disasters.

3.87. To make progress on "No Poverty" by 2030 pertaining to SDG Agenda-I, Pakistan introduced multiple programmes of social safety nets specifically *Ehsaas* Program, Benazir Income Support Program (BISP), and Pakistan Poverty Alleviation Fund (PPAF). *Ehsaas* Emergency Cash has been recognized by the World Bank as among the top four social protection interventions globally in terms of number of people covered. Other programmes of social uplift of marginalized people include National Poverty Graduation Program (NPGP) and Employees Old-Age Benefits Institution (EOBI).

3.88. The country has achieved substantial progress on SDG Goal-3 (Good Health and Wellbeing) by giving priority to strengthen health sector to further address the issues like pandemic with landmark health care initiatives including *Sehat Sahulat*[13] Program, National Health Vision 2016-2025 and *Ehsaas* Program, Family Planning and Primary Healthcare Program (FP&PHC).

3.89. On gender mainstreaming, SDG 5 "Achieve gender equality and empower all women and girls" has been given special attention as many interventions have been introduced to empower women on both social and financial fronts. Several legislations have been promulgated during 2020-21 i.e., Zainab Alert, Response & Recovery Act, 2020, The Khyber Pakhtunkhwa Domestic Violence Against Women (Prevention & Protection) Act 2021 to protect and empower women.[14]

3.90. On Climate Action pertaining to the SDG-13, Pakistan has undertaken aggressive afforestation under the Ten Billion Tree Tsunami Program, amongst other initiatives, including in green energy mentioned earlier.

3.91. Pakistan has also taken several proactive measures to better manage the impact of climate change. These include Glacial Lake Outburst Flood Risk reduction measures, improvement in water monitoring capacity and Sustainable Forest management unit among others. Pakistan has instituted Climate Resilient Urban Human Settlements Unit to help its cities better contend with climate change.

[12] "livelihood".
[13] "health facility".
[14] Source: State Bank of Pakistan (ii) M/o Planning, Development & SPI.

Similarly, the National Ozone Unit will help the country limit its ozone emissions. Pakistan has approved the Climate Change Act 2017 with the aim of systemizing climate resilient initiatives.

3.92. The Government is fully committed to follow the sustainable path of development as reflected in the initiatives and interventions. The country aims to further strengthen its social safety nets by increasing the coverage and scope of its social protection system.

4 MULTILATERALISM

4.1. Being the founding member of GATT 1947 and WTO, Pakistan fully recognizes the importance of sustainable and inclusive economic growth under the umbrella of the Multilateral Trading System.

4.2. Pakistan reiterates that efforts should be made to permeate the benefits of the trade liberalization to the developing and least developed countries. Pakistan strongly defends the treaty embedded right of developing countries to avail of Special and Differential Treatment (SDT). Pakistan values SDT as a fundamental pillar of the WTO's ethos without which it is difficult to maintain and implement a fair and equitable multilateral trading system and allow the necessary policy space to developing countries and enhance the development of their domestic industries which is critical to their economic growth.

4.3. Pakistan has been very active in the WTO's response to pandemic negotiations and has argued for a holistic approach cutting across sectors of the economy, rather than just confined to health. Pakistan has argued for instituting a response for future preparedness of members and for policy flexibilities within the WTO for that purpose, as well as enhancing food security measures, transparency, and addressing the challenges posed by IP laws in the enhancement and global diffusion of production of critical medical products.

4.4. The TRIPS Council has provided an opportunity for Pakistan to advocate and negotiate for an equitable access to the urgent and necessary medical diagnostics, vaccines and therapeutics to fight the current pandemic. Pakistan believes that the WTO must be part of a global public response to the pandemic since anything less will not be effective or efficient.

4.5. Pakistan relies heavily on agriculture for the livelihoods of a large part of its population of 220 million people[15], for food security and development and is actively engaged in finding solutions for a meaningful reform on the trade distorting subsidies as well as an effective mechanism to ensure food security in the negotiations under the Agreement on Agriculture.

4.6. Pakistan further believes that active participation in the multilateral system at the WTO is extremely important in generating new ideas and creating an organization that is responsive to emerging challenges. To this effect, Pakistan has been taking a leadership role in various committees at the WTO to contribute to an inclusive multilateralism.

4.7. Pakistan views the relevance of the WTO in the emerging global context to be closely linked with its ability to respond to new challenges and global issues. To this end, Pakistan has consistently supported the prioritization of the resolution of the Appellate Body impasse to restore its full functioning. At the same time, Pakistan has maintained that the reform process should seek to maintain and strengthen, and not dilute or diminish the core principles on which the multilateral system stands. This includes the fundamental principles of non-discrimination, consensus-based decision making, effective special and differential treatment for developing countries, and transparency at all levels and in all endeavors of the organization.

5 WAY FORWARD

5.1. Pakistan has so far posted remarkable economic recovery during a testing phase of global economic upheaval from the pandemic and geo-political developments in the region.

5.2. In the near term, Pakistan is facing some serious challenges that influence fiscal space and the ability to pursue an ambitious trade and investment agenda. These include the costs associated with

[15] Viewed at: http://www.finance.gov.pk/survey/chapters_21/02-Agriculture.pdf.

the Afghan war and the recent NATO exit, the global COVID-19 pandemic and severe balance of payments and fiscal imbalances.

5.3. Despite these challenges, Pakistan is determined to deregulate markets, remove distortions and create a conducive environment for investment for its growing economy, offering access to a large and growing middle class to potential investors and trading partners.

5.4. Pakistan is demonstrating its commitment to promoting international trade through world-class infrastructure investments and an increasingly open policy environment. Pakistan's consistent move towards regional connectivity marks a shift in its priorities and strategy.

5.5. To develop longer-term trade and economic strategies that are aligned with Pakistan's ambitions and global commitments, Pakistan is initiating programmes to provide research support to the Ministry of Commerce (MoC). The Lahore School of Economics has recently been selected as a WTO Chair and is expected to collaborate with the Ministry of Commerce to provide research and training to support the Ministry's trade policy decision making. This will also help Pakistan plug into the global network of WTO Chairs to deepen its understanding of trade and development and reflect it in policy making and implementation. Similarly, the Tariff Policy Center is now performing a key role in conducting research and analysis for reform proposals and bringing stakeholders together.