SUMMARY

1. Since Pakistan's previous Trade Policy Review in 2015, efforts for improving economic fundamentals and strengthening macroeconomic resilience have been undertaken. Pakistan was able to weather the COVID 19 pandemic comparatively well, supported by a proactive and comprehensive set of economic policies and other support measures. During the review period, Pakistan's annual GDP growth on a market price basis peaked at 5.8% (2017/18), and declined to -0.9% (2019/20), due to the COVID-19 outbreak. It has since bounced back to an estimated 4.7% in 2020/21 as a result of the timely adopted support measures. Pakistan's GDP annual average growth rate for the period 2014/15-20/21 stood at 3.8%, a slight rise compared to previous performances (averaging 3.2% in 2007/08-13/14). Following an episode of external and fiscal imbalances, on 3 July 2019 Pakistan entered a 39-month IMF Extended Fund Facility (EFF) involving adjustment measures, including fiscal consolidation; in light of the COVID-19 incidence, the EFF was temporarily put on hold in March 2020. Developments in Pakistan's competitiveness position in the world reflect those of labour productivity growth and, in particular, total factor productivity growth, but also weaknesses in several areas where reforms have been under way. Inflation peaked at 10.7% in 2019/20 before slightly dropping to 8.9% in 2020/21, almost twice its 2014/15 level; the unemployment rate increased from 5.8% in 2017/18 to 6.9% (2018/19) and then seemingly rose further, reflecting concerns over a low GDP growth rate and the impact of the pandemic.

2. During the review period, trade and trade related structural reforms focused on bolstering governance, efficiency, and the business climate; reforms, supported by the EFF, were undertaken in several areas including monetary, taxation, privatization, energy, competition policy, and corporate governance. In response to the COVID-19 pandemic, the State Bank of Pakistan has proactively loosened its prudent monetary policy under which the policy rate was changed 17 times between 15 May 2015 and 26 June 2020 from 6% to 13.25% (13 July 2019), a peak from which it was progressively cut to 7% on 26 June 2020 and then it was raised to 7.25% on 21 September 2021. To support the balance of payments, exchange restrictions and multiple currency practices were introduced in 2017 and 2018. Following a series of exchange rate adjustments since late 2017, on 16 May 2019 the system was changed from a de facto exchange rate arrangement (i.e. managed floating with no predetermined path for the exchange rate) to a market-determined exchange rate system that has supported external adjustment and reserve accumulation. During the review period, the current account deficit peaked at 6.1% of GDP in 2017/18 due to a widened trade gap and then bottomed at 0.6% in 2020/21, averaging 2.9% of GDP during 2014/15 2020/21, same as in the period 2007/08 2013/14. Foreign exchange reserves bottomed at USD 14.5 billion in 2018/19 and peaked at USD 24.4 billion in 2020/21 due to a significant improvement in the current account balance, the resumption of the IMF EFF, continued access to financing from other multilateral agencies and commercial and bilateral creditors, the re issuance of Eurobonds, and the issuance of the country's first-ever green bond. Gross external debt grew considerably, by 78.4%, during the period 2014/15-2020/21.

3. Pakistan's openness to international trade and its integration into the world economy continued to be reflected by the country's share of trade (exports plus imports) in goods and services to GDP, which despite a slight rise from 27.7% in 2014/15 to 28.2% in 2020/21, continued its fall since the period 2007/08-2013/14. Merchandise trade has remained largely dependent on textiles and textile articles for exports, and mineral products and petroleum and machinery and electrical equipment for imports. International trade trends reflect the rising importance of Europe and the Americas as Pakistan's main regional markets, and Asia and the Middle East as its main suppliers; furthermore, merchandise trade under most regional trade agreements (RTAs) remained negligible. Its main individual trading partners remain China, the European Union, the United States, and the United Arab Emirates.

4. Pakistan maintains a relatively liberal investment regime, which applies equally to both nationals and foreigners. However, exceptions in certain sectors where there are equity limits on foreign investment (i.e. agriculture, banking, construction, airline, and media) or where foreign investment is completely prohibited (i.e. arms and ammunitions, high explosives, radioactive substances, securities, currency and mint, and consumable alcohol) remain in place. During the review period, Pakistan's ease of doing business rose significantly as a result of several reforms including the expansion of the procedures covered by an online one stop shop, and the easier payment system for value-added and corporate income taxes. Pakistan continued to promote investment, through the same tax and non-tax incentives consisting of reduced customs duties on imports of plant machinery and equipment; tax relief in the form of an initial depreciation allowance

on plant, machinery, and equipment; Special Economic Zones (SEZ) and Export-Oriented Units (EOUs) facilities, as well as sector-specific measures including Export Enhancement Packages (EEPs). During the review period, FDI inflows peaked in 2017/18 and bottomed the following year; as at 2020/21, they were largely allocated to services and energy, and mainly originated in China and the European Union. As from 2021, in line with policy considerations, the Bilateral Investment Treaties framework is being revised; similarly, following Pakistan's signature in 2017 and implementation of two OECD tax treaties, changes are to be brought to its 66 Avoidance of Double Taxation Treaties.

5. During the review period, Pakistan pursued wide-ranging trade-related and investment policies based on its Vision 2025; its overall trade policy objectives were embodied at its Strategic Trade Policy Framework (STPF) 2015-18, and remain those of trade liberalization and facilitation, improvement of export competitiveness, and reduction of cost of doing business. A first-ever National Tariff Policy (2019-24) was introduced, inter alia, based on "time-bound" strategic protection and temporary import substitution principles to improve competitiveness, increase employment opportunities and consumer welfare, as well as to remove the anomalies in the tariff structure. Other approved policy initiatives included a National SME Policy Action Plan 2020 and a first E-Commerce Policy. A Pakistan Regulatory Modernization Initiative (PRMI), a project to reduce the compliance burden of businesses while improving the effectiveness of the regulatory regime, was launched in June 2021. Statutory Regulatory Orders (SROs), a regulatory instrument of "delegated legislation" of concern in the past, remain in place but as from 2016 concessionary SROs providing exemption from duties and taxes have been issued only by the Federal Government rather than the Federal Board of Revenue; according to the authorities, SROs are now issued after approval of the competent authority and due process.

6. Pakistan remains committed to the rules-based multilateral trading system and actively participates in WTO activities. During the review period, it expanded its WTO commitments by ratifying the Agreement on Trade Facilitation (TFA) and completing a large part of its implementation. Pakistan signed the Joint Ministerial Statement on Investment Facilitation for Development and the Declaration on the Establishment of a WTO Informal Work Programme for Micro, Small and Medium Enterprises (MSMEs) at MC11. Pakistan participates in several regional and preferential trade arrangements (RTAs/PTAs), of which many have had so far relatively limited product coverage and trade importance for the country. During the review period, although RTA concrete outcomes have been limited to a Protocol on unilateral granting of "zero duty'' on 20 tariff lines to Pakistan under the Indonesia-Pakistan Preferential Trade Agreement (IP-PTA) in 2018 and the signature of a Protocol on Phase-II of the Pakistan-China RTA in 2019, several initiatives, intensified as from 2020, were taken to negotiate or explore the feasibility of future RTAs/PTAs with certain countries. Pakistan remains a beneficiary of the Generalized System of Preferences schemes of several countries. Furthermore, it continues to receive WTO trade-related assistance and Aid for Trade support. Pakistan continues to have some outstanding WTO notifications; at the same time, during the review period it was involved in six new dispute settlement cases (one as respondent, one as complainant, and four as third party).

7. The general thrust of Pakistan's trade policy has remained relatively unchanged since 2015. While no unilateral liberalization has been undertaken, there have been regulatory or institutional developments in certain areas, including trade facilitation, anti-dumping, incentive schemes, government procurement, and intellectual property rights.

8. The tariff continues to be one of Pakistan's main trade policy instruments, and also a significant source of tax revenue. The 2021/22 customs tariff remains complex, involving a multiplicity of rates (13 different ad valorem rates, and 20 different specific rates). The introduction of a zero rate that applies to nearly 30% of tariff lines, mainly industrial raw materials to help domestic industry, coupled with the abolition of nuisance rates, has resulted in a reduction in the average applied MFN tariff rate from 14.3% in 2014/15 to 12.1% in 2021/22. Applied rates range from zero to 100% (levied on motor vehicles). Pakistan has bound 97% of its tariff. The average bound rate is 61.5%, which is over five times the average applied MFN tariff, giving the authorities considerable scope to change the tariff. Regulatory duties on nearly 600 products ranging from 2% to 90% are in place. In addition, the tariff regime's complexity is increased by the prevalence of SROs providing for duty and tax exemptions and concessions. The National Tariff Policy 2019-2024 has addressed some of these issues.

9. During the review period, Pakistan made significant improvements to its customs clearance procedures enabling it to implement over 86% of the provisions of the WTO TFA and reducing

customs clearance times. These have included the roll-out of new modules in the WeBOC computerized clearance system, such as those dealing with risk assessment, e-payments, advance ruling, pre-clearance, and the authorized economic operator programme. Additionally, Pakistan is also in the process of implementing a national single window platform.

10. The import of certain products is prohibited due to health, safety, security, moral, religious, and environmental reasons. Furthermore, Pakistan restricts the import of certain products for which prior approval or clearance, clearing testing arrangements, and compliance with certain procedural requirements before importation is required. At the same time, Pakistan considers not having an import licensing regime. During the review period, changes were made in the trade contingency measures regime, with the enactment of the Anti-Dumping Duties Act, 2015. The Act aims to bring the methodology of the National Tariff Commission for Anti-Dumping investigations in harmony with the WTO Anti-Dumping Agreement and seeks to avoid litigation in domestic courts against its actions. During the period under review, Pakistan conducted 32 anti-dumping investigations; action was taken on 22 of these. Furthermore, over the same period, 10 anti-dumping actions were terminated. Pakistan undertook a countervailing investigation in 2016. However, no final measures were imposed as anti-dumping measures had been imposed on the same product. Pakistan has never undertaken any safeguard measures.

11. Pakistan continues to prohibit exports of certain products deemed essential so as to ensure adequate domestic supply; however, this may possibly also assist downstream processing of these products. Additionally, some products can be exported only if certain conditions are met. The Government also levies an export development surcharge of 0.25% of the f.o.b. value on all exports to finance the Export Development Fund (EDF). Certain exports incur a regulatory duty ranging from 15% to 25%, which essentially serves as an export tax, to also ensure domestic supply.

12. Under the Strategic Trade Policy Framework for promoting high value-added exports, several schemes supporting such products continue to operate. These include Export Processing Zones Scheme (EPZ), Manufacturing Bond Scheme (MB), Duty and Tax Remission for Export Scheme (DRTE), Export-Oriented Units and Small and Medium Enterprise Scheme (EOU), and the recently introduced Export Facilitation Scheme (EFS). Incentives offered under each scheme vary from tax and duty rebates to duty-free imports of inputs and plant and machinery to subsidized utility rates. Incentives under some of these schemes, such as the EFS and funding under the EDF, are based on export performance. Additionally, preferential export finance schemes are also in place.

13. Similar to the tariff, tax administration is hampered by the multiplicity of taxes, numerous concessions, and exemptions. With a view of developing an indigenous industrial sector as well as import substitution, Pakistan provides incentives that are both general in nature and sector specific. Sector-specific incentives are provided to the electric vehicle manufacturing, information technology, manufacturing of mobile devices, automobile, pharmaceutical, food processing, housing and construction, logistics, textiles, and tourism sectors.

14. During the review period, the TBT regime remained unaltered. As of June 2021, nearly 73% of standards were internationally adopted, while those developed as Pakistan standards were also predominantly based on UK or regional standards. Pakistan has 114 mandatory standards.

15. Under the latest Import Policy Order (2020), imports of live animals from territories with negligible BSE risk are now permitted, as are those of live poultry from countries that are not free from pathogenic avian influenza upon fulfilment of certain requirements.

16. With a view to further improving food safety and applying international standards, the Pakistan Plant Quarantine Rules were updated in 2019. These provide details of goods permitted for import and associated conditions and requirements such a pest risk analysis and import risk analysis. The Rules also provide an updated list of banned or restricted products from territories deemed high risk. Imports of GMOs and LMOs are permitted under specified conditions for research and experimentation purposes. Pakistan applies maximum residue levels/limits (MRLs) to both domestic and imported foodstuff, and these are usually based on Codex standards and regulations.

17. Pakistan considers not having state trading enterprises within the meaning of Article XVII:4(a) of the GATT 1994. State involvement in the economy continues to be widespread with SOEs' revenues amounting to about 10% of nominal GDP. However, SOEs have been incurring considerable

losses and remain a significant burden on public finances and resource allocation. Consequently, the Government has been trying to privatize some of these entities, albeit with little success due mainly to lack of market appetite. To add momentum to the privatization process and also as part of the IMF EFF structural benchmarks, the Government undertook a comprehensive review of existing SOEs for the purpose of categorizing these for retention, privatization, and liquidation.

18. During the review period, regulatory changes pertaining to government procurement in Pakistan, an observer to the plurilateral WTO Agreement on Government Procurement since February 2015, included direct contracting by SOEs and accommodating e-procurement methods, as well as expanding coverage to the disposal/sale of public assets. Price preferences of up to 25% continue to be in place depending on domestic value-added content; the maximum preference is contingent on at least 35% domestic value-added. The magnitude of public procurement, coupled with the relatively high price preference, provides a significant advantage to domestic producers.

19. Since 2015, there has been no change to the competition policy regime. However, it appears that the Competition Commission of Pakistan has become progressively more active in enforcement. In an effort to curb inflation and ensure the supply of essential commodities at affordable prices, the Government issued the Price Control and Prevention of Profiteering and Hoarding Order, 2021. Under the Order, the Government has the authority to fix and structure maximum prices for 50 goods deemed essential in the case of an "uncontrolled price hike". Thus far, only sugar prices have been fixed under the Order, while those for wheat are under consideration.

20. To encourage innovation and investment in the information technology sector, the Government took steps to further improve and enforce the IPR regime. In May 2021, Pakistan signed and ratified the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks. In March 2020, Pakistan enacted the Geographical Indications (Registration and Protection) Act 2020 that establishes a Geographical Indications Registry and allows for a geographical indication of a foreign country to be registered in Pakistan. In 2016, the Plant Breeders Rights Act was enacted, and a Plant Breeders Rights Registry has been set up under the provisions of the Act. During the review period, Pakistan took steps to improve enforcement, such as increasing the number of IPR Enforcement Coordination Committees, establishing three IP tribunals, and digitizing data at the trademark and copyright registries, which has seemingly led to increased seizures.

21. Agriculture accounted for 25.7% of GDP in 2020/21, and 39.2% of total employment in 2018/19, a signal of persisting low labour productivity compared to other activities. More than 60% of the population lives in rural areas, and the country continues to face high levels of food insecurity. The structure of Pakistan's agriculture is shifting, as the crop subsector's share in total agriculture value-added continues to decline, while the share of the livestock sector increases. The Government continues to use a wide range of policy tools, both at the border and domestically, to facilitate the development of the agriculture sector. The average applied MFN tariff on agriculture products in 2021 stood at 13.2%, down from its 2014/15 level (14.6%), but still higher than for non-agricultural goods (11.9%). Tariffs peak at 90% (93.6% when ad valorem equivalents (AVEs) are included). Regulatory duties, SROs, import/export restrictions, input subsidies, support prices, and tax deductions and exemptions all continue to be applied. SOEs have a significant involvement in agriculture. They include the Trading Corporation of Pakistan (TCP), which is involved in the importation of several essential food items when the issue of national food security arises, and the Pakistan Agriculture Storage and Services Corporation (PASSCO), which maintains strategic reserves of wheat for food security.

22. Pakistan is rich in marine resources and has a trade surplus in fish and crustaceans. The Government has been taking a number of initiatives to strengthen extension services, introduce new fishing methodologies, develop value-added products, enhance per capita consumption of fish, and upgrade socio-economic conditions of the fishing community. To cover all aspects of sustainable fishing, the Government recently amended the Exclusive Fishery Zone (Regulation of Fishing) Rules, 1990. MFN tariffs on fish and fishery products (WTO definition) averaged 13.9% in 2021, up from 10.7% in 2013.

23. During the review period, mining and quarrying contracted to just over 2% of GDP. Pakistan has a trade deficit in mineral products, and the average applied MFN tariff is 5.6%. One of the goals of the national mineral policy is to encourage small-scale mining, where preferences are given to Pakistani nationals. Pakistan relies on imported energy, particularly gas and oil. The Government

aims to phase out coal-fired power plants to protect the environment. SOEs play very important roles in the energy sector, and the Government sets electricity tariffs. The high cost of electricity, circular debt, underutilization of power plants, inefficient power generation companies, centralized control of distribution and generation companies, and high transmission and distribution losses persist. Electricity tariffs remain high, and cross subsidization continues. In 2019, more than one quarter of the population had no access to electricity.

24. The manufacturing sector grew rapidly during the review period and contributed around 12.5% of GDP in 2020/21. The Government formulated sector-specific policies to facilitate the development of this sector, such as the Automotive Development Policy 2016-2021, the Mobile Device Manufacturing Policy 2020, and the Electric Vehicle Policy 2020. Pakistan encourages the exportation of manufactured products by providing various incentives, including the removal of regulatory duties and additional customs duties, as well as a duty drawback scheme.

25. Services' contribution to GDP rose considerably during the review period. However, as the sector was most affected by the pandemic, its share of GDP dropped slightly (56.2%, 2020/21), albeit above its 2014/15 level. Pakistan remains a net importer of services. It made commitments beyond GATS in the context of some of its RTAs.

26. The financial services sector remained solvent and resilient in 2020-21, although the non performing loans to total loans ratio went up. The Central Bank has been making efforts to promote financial development and inclusion, by reducing the gender gap and advancing fintech and digitization of banking operations. As a large share of the population does not have a financial account, the Central Directorate of National Savings (CDNS) worked to increase people's access to affordable financial products and services by expanding digital access points. Interest rate spreads ranged from 2.85 percentage points to 6.13 percentage points during the review period, representing variations in banks' profit margins. Insurance penetration remains low (0.8% in 2020), but the subsector has been developing quickly. The State Life Insurance Corporation of Pakistan dominates the life insurance market, and the Pakistan Reinsurance Company Limited (PakRe) is the only reinsurer. The National Insurance Company has the exclusive authority to underwrite and insure public sector firms, assets, and properties. Capital markets have witnessed several developments, including the promulgation of the Securities Act 2015 and the promulgation of the Futures Market Act 2016, as well as the merger of the three local stock exchanges to become a single unified Pakistan Stock Exchange (PSX) in 2016.

27. Growth momentum in the telecoms sector has continued, and the mobile subsector has been the main contributor. The Government issued a National Telecommunications Policy 2015, with a view to transforming Pakistan into an information society and a knowledge-based, middle-income country by 2025. It also issued the Rolling Spectrum Strategy 2020-2023; together with the annual spectrum strategies, the Government aims to allocate and assign spectrum to maximize social and economic benefits.

28. The Government issued its National Transport Plan 2018, against a background of an unbalanced transport sector, a lack of coherent institutional framework, and legislation that was not up to date. The Pakistan Railways, the Pakistan National Shipping Corporation (PNSC), and Pakistan International Airlines (PIA) are the only, or the dominant, service providers in their respective markets. In 2019, a Shipping Policy was issued, with a view to incentivizing the private sector to participate in the mercantile shipping business. In the same year, a National Aviation Policy was issued, aiming to improve the competitiveness of the industry and enhance regional air connectivity. The Government has also been making investments to promote the transport sector through the China Pakistan Economic Corridor (CPEC) programme and the Central Asia Regional Economic Cooperation (CAREC) programme. Cabotage in land, sea, and air transport is prohibited.

29. Tourism was affected severely by the pandemic, security concerns, and a lack of planning and policy direction. The distribution services sector (wholesale and retail trade – 18.8% of GDP in 2020/21) is recovering quickly. Notably, the Government launched its Digital Pakistan Policy in 2018, with a view to utilizing the country's young labour force and knowledge capital, which was followed by its E-Commerce Policy. E-commerce has been developing quickly in the past few years, as shown by the increase in the number of online vendors and local e-commerce platforms.

30. Pakistan's short-term growth outlook remains robust, mostly driven by private consumption, and is to reach its medium-term potential only by 2023/24. Despite efforts to strengthening macroeconomic resilience, substantive downside risks to the economic outlook remain and are subject to COVID-19 developments. Endogenous risks may stem from, inter alia, delays or failures in the implementation of critical structural reforms possibly leading to further fiscal and macroeconomic imbalances. Exogenous risks might relate to high uncertainty around the global recovery affecting the prospects for growth, exports and remittances, policy normalization in the advanced economies with implications for the cost of external financing, and the ongoing trend of surging global commodity prices. In addition to the ongoing reforms, higher growth, investment, and job creation would depend on action for addressing long-standing structural weaknesses, including an uneven playing field for SOEs and private companies, that have remained a drag on productivity, investment, and the development of a vibrant private sector. These reforms would help Pakistan attain its economic and welfare policy objectives and further integrate into the world trading system.