EXECUTIVE SUMMARY OF PAKISTAN'S INVESTMENT POLICIES

Embassy of Pakistan, Beijing
Commercial Section

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1. INTRODUCTION

Pakistan and China are time tested strategic cooperative partners, iron clad brothers and enjoy long standing friendship. The economic relationship between Pakistan and China has been gaining momentum with latest developments such as China Pakistan Economic Corridor (CPEC), China Pakistan FTA phase II and conclusion of a number of agriculture market access protocols. The year 2023 also marked as the decade of CPEC which has helped Pakistan to transform into one of the most strategic locations that provides shortest and most competitive access to the sea port for thriving western China and energy rich Central Asian Republics.

Our fast-growing economic partnership has entered the phase–II of CPEC which is about business-to-business interactions and partnerships benefitting both countries. The Government of Pakistan invites Chinese enterprises to explore businesses partnerships with Pakistani enterprises and make investments into competitive sectors having favorable economic endowments in Pakistan to achieve win- win results.

This brochure has been prepared to inform potential Chinese investors about Pakistan's investment policies, incentives for different industrial parks including Special Economic Zones (SEZs), Export Processing Zones (EPZs), Special Technology Zones (STZs), Strategic Trade Policy Framework, Textile and Apparel Policy and different sectoral policies. This document also highlights the Export facilitation Scheme and the advance ruling mechanism by the Government of Pakistan which unveils lucrative incentives for and foreign investors interested in export oriented sectors to become more competitive. In order to facilitate the investors, enable them to utilize the policy incentives and achieve the underlying objectings, the Government of Pakistan has established a high powered Special Investment Facilitation Council (SIFC), through an Act of Parliament. The next section (II) will explain economic landscape of Pakistan, showcasing Pakistan's competitive advantages in trade and investment. Third section explains the investment regime in Pakistan, and section IV provides the relevant contact information.

The Embassy of Pakistan, Beijing avails itself of this opportunity to encourage more people to understand and invest in Pakistan, and will do our best to provide services and facilitations.

2. PAKISTAN'S ECONOMIC LANDSCAPE

Pakistan enjoys many economic endowments, favourable government policies and infrastructure making it an ideal destination for investment. It offers enormous potential having 9.1 million hectares of land available for agriculture and 22.4 million hectares of rangeland available for livestock. Pakistan has over USD 6.1 trillion net estimated mineral reserves with 7th largest copper reserves and 2nd largest coal reserves. The renewable energy potential in Pakistan is estimated at 3300 GW and there is an expected increase in the energy consumption by 1.5 times until 2030.

Pakistan is blessed with a vibrant, young and skilled workforce. It is the 5th most populace country in the world with a population over 240 million and median age of 21 years as 64% of the total population is aged below 30. Out of this total population labor force in Pakistan is estimated at 71.8 million strong, with an expected addition of 0.4 million people into the labor pool every year. IT labor in Pakistan, costs 70% less than North America and Europe, and constitutes the 2nd largest freelancing work force in the world. Wages in Pakistan are one of the most competitively priced rates in the world and as per a careful estimation a Chinese enterprise can save up to 8% of costs by operating in Pakistan and utilizing Pakistani labour.

Pakistan has a unique and a strategic location. It stands at the crossroads of South Asia, Central Asia and the Middle East, presenting an unparalleled gateway for global economic opportunities. It is an economic gateway to the world offering transit route for regional trade and economic integration. The country connects energy-rich Central Asian states to rest of the world and offers key maritime link to Arabian Sea, Indian Ocean and international shipping routes. As a connectivity hub, Pakistan integrates land-sea routes for seamless connectivity and also provides a digital land bridge connecting China and Central Asia with rest of the world.

Pakistan has developed a modern infrastructure which guarantees the return on investment in Pakistan. Some of the important highlights of business enabling infrastructure in Pakistan are as follows:

- A strategic coastal line of 1,046 km
- 3 stretegic seaports including Karachi, Port Qasim and a deep-sea port in Gwadar
- Network of dry ports throughout the country
- 12 international airports
- Strategic land ports including Torkham, Chaman, Khunjerab and others for cross border trade
- In October 2023, Pakistan and China agreed to open the Khunjerab – Sust border crossing points
- A well-developed and extensive network of 259,678 km of road and 12,774 km of railway infrastructure

In terms of market access, Pakistan has its largest FTA with China allowing over 90% of Pakistan's exports in China at zero customs duty. Pakistan also has EU GSP plus status allowing huge unilateral duty free market access to Pakistani products in EU. This market access provides a great opportunity for Chinese enterprises to relocate to Pakistan and avoid the safeguard duties imposed on them.

The Government of Pakistan is strongly committed to supporting economic activities through industrialization fueled by efficiency-seeking investment in Pakistan to make best use of the economic advantages in Pakistan. The next section takes stock of major investment policies, facilitation mechanisms and specials schemes for supporting investment in Pakistan.

3. INVESTMENT POLICIES IN PAKISTAN

To provide a suitable investment environment, the government of Pakistan offers a liberal investment regime with supporting policies and regulatory measures. It offers special incentive packages, tax exemptions and reduced tariffs for industrialization. To facilitate investment, a network of economic and technology zones in the country offering diverse incentives at par with the regional competitors, have been established, offering many business opportunities. These zones include Special Economic Zones (SEZs), Special Technology Zones (STZs), Export Processing Zones (EPZs), Gwadar Free Trade Zone and sectoral policies.

The developed zones provide infrastructure facilities and access to reliable utilities, modern infrastructure, and transportation & communication networks. The zone regimes offer flexibility in terms of modes of operation including public, private, PPP or sole enterprise. The zones had been envisaged to comply with international quality and safety standards and are aligned with global eco-friendly practices.

In a first, this chapter also includes investors to export facilitation scheme 2021 introduced by the Government of Pakistan. The scheme offers duty and tax exemptions and remission on the acquisition of imported and domestic inputs and machinery, based on certain conditions and compliance requirements. Furthermore, a section has been included on Strategic Trade Policy Facilitation (STPF) 2020-25 and Textile and Apparel Policy 2020-25 which underscores some important incentives for exporters, depicting a conducive eco system for investors looking to invest in Pakistan.

3.1 INVESTMENT POLICY 2023

The government of Pakistan has been actively working to create an environment that encourages business growth and development. Pakistan’s new Investment Policy, 2023 emphasizes deregulation, privatization, and the facilitation of foreign direct investment (FDI). The country has taken steps to streamline bureaucratic processes, reduce red tape, and improve the ease of doing business. Efforts to ensure protection of investor rights, dispute resolution mechanisms, and provision of a level playing field for both local and international investors are key components of Pakistan's investment policy.

The policy offers a liberal investment regime which provides level playing field to local and foreign investors through equal treatment. All economic sectors are open to FDI and borrowing facilities from local and foreign banks are allowed. The legislative system for investment facilitation has been developed, foreign investment is fully protected, and remittance of royalty, fees and profits are allowed to be repatriated under Foreign Investment (Promotion and Protection) Act, 2022, Protection of Economic Reforms Act, 1992 and Foreign Private Investment (Promotion & Protection) Act, 1976.

Some of the investment incentives, services and basic infrastructure details in summary are as follows:

Financial Benefits	Business Services	Infrastructure Services
- Up to 100% foreign ownership allowed - Minimum equity requirement for foreign investment has been abolished in 2023 - No upper limit on the share of foreign equity - Option to repatriate profits, dividends, or any other funds in foreign investor's currency of origin - No restrictions on foreign real estate developers - Investment in banking sector including opening branches of foreign banks has been allowed in 2023 - Creation of an updated and comprehensive Foreign Investment (Promotion and Protection) Act, 2022 - Special Provisions for transfer of technology -	- Online registration procedure for foreign companies - Opening of branch or liaison offices - 7-week duration for application processing - Entitlement to sell shares, transfer ownership, and de- register - Domestic borrowing allowed - Implementation of Pakistan Regulatory Modernization Initiative (PRMI) which aims to cut back on redundant regulatory requirements. - Specialized Intellectual Property Tribunals for better adjudication of intellectual property cases - Facilitation by Intellectual Property Organization for facilitation of foreign investors through a single window	- Pioneer industries avail incentives at par with Special Economic Zones (SEZs) - Entitled to lease land without limitation - No limitation on the transfer of any land held by a foreign investor - No restrictions on foreign real estate developers - 5-year Multiple-entry Business Visa - Streamlined land transfer to investors. - Performance based incentives with indicators such as allowances, investment tax credits, accelerated depreciation, reduced tax rates and others

The overarching aim for the policy is to create industry clusters with forward and backward linkages that ultimately help the country in increasing its economic complexity.

The Policy has identified the following priority growth areas

- ✓ Mines and minerals
- ✓ Low Carbon related activities, Electric Vehicles and their components
- ✓ Electronics and ICT and relevant services, including in the latest technologies

- ✓ Chemicals, renewable energy and oil and gas
- ✓ Pharmaceuticals, surgical instruments and medical devices
- ✓ High-value textiles focused on the production of innovative products
- ✓ Agriculture and food processing, including fruits and vegetables and fishery products, high value agriculture and advanced services, which will assist downstream activities of Pakistan's agriculture products
- ✓ Financial services
- ✓ Logistics and transportation
- ✓ Tourism
- ✓ Soft infrastructure like the education, human resources and technology development

3.2 SPECIAL INVESTMENT FACILITATION COUNCIL

The Government of Pakistan has established a high-powered Special Investment Facilitation Council (SIFC) through an Act of Parliament. It leverages a unified, laterally and horizontally coordinated, whole of government approach to improve investment climate, rationalize regulator regime and reduce cost and time of doing business through a "single window" framework. The SIFC offers a streamlined decision-making system, with executive committee, apex committee, sectoral working groups and implementation committee. SIFC is one of the key developments made for seamless implementation of Pakistan's investment policy and to ensure facilitation and incentive entitled under the investment regime.

SIFC has three tiers of governance structure. First is the Apex Committee, a decision-making forum headed by the Prime Minister of Pakistan and is attended by all economic ministers of the federal cabinet in addition to Provincial Chief Ministers. Chief of Army Staff also attends the meeting on special invitation.

Second forum is the Executive Committee which is headed by Minister for Planning. Meetings of the Committee are attended by all important Federal Secretaries and Provincial Chief Secretaries. At this forum, the merits and de-merits of the proposals are discussed and recommendations for the Apex Committee are finalized.

The third forum is Implementation Committee which is headed by Special Assistant to the Prime Minister on Government Effectiveness and it supervises the decisions taken by the Apex and Executive Committees.

SIFC ORGANIZATIONAL STRUCTURE

1. APEX COMMITTEE

- **Chair** – Honorable Prime Minister of Pakistan
- **Secretary** – Special Assistant to the Prime Minister (GE)
- **Special Inivitation** – Pakistan Army

2. EXECUTIVE COMMITTEE

- **Chair** – Minister for Planning, Development & Special Initiatives
- **Secretary** – Additional Secretary, Board of Investment
- **Coordinator** – A Lt. General from Pakistan Army

3. IMPLEMENTATION COMMITTEE

- **Chair** – Special Assistant to the Prime Minister (GE)
- **Secretary** – Additional Secretary, Board of Investment
- **Coordinator** – Director General (Pakistan Army)

The mandate of the SIFC include the following:

- Act as 'Single Window' for multi-domain cooperation focusing on investment & privatization
- Emphasis on key areas including Agriculture/ Livestock, Mines/ Minerals, Information Technology & Telecom and Energy
- Develop an enabling policy environment
- Prepare long-term road-map while capitalizing on low hanging fruits
- Enhance awareness of Pakistan's latent potential
- Improve ease of doing business; overcome bureaucratic hurdles, optimize horizontal-vertical synergy and fast-track implementation of projects
- Explore new opportunities to expand cooperation

For Investors to approach SIFC, it is advised to get in touch with Pakistan Mission in Beijing, Shanghai, Guangzhou and Hong Kong.

3.3 SPECIAL ECONOMIC ZONES

The SEZ Act was promulgated on September 13, 2012 and the SEZ Rules have been notified. The law provides SEZs to be set up by the Federal or Provincial Governments themselves or in collaboration with the private sector under different modes of public-private partnership or exclusively through the private sector. The fiscal benefits under the SEZ law include a one-time exemption from custom duties and taxes for all capital goods imported into Pakistan for the development, operations and maintenance of a SEZ (both for the developer as well as for the zone enterprise) and exemption from all taxes on income for a period of ten years. The provincial SEZ authorities, set up under the law, are required to move the applications received from developers to the Board of Investment which is to act as the secretariat to the Board of Approval and the Approval committee.

Pakistan plans to include 35 special economic zones throughout the country. These zones can be developed in Public, Private & Public Private mode.

The zones provide a number of attractive features as follows:

- Exemption from income tax for ten years for Zone Developers, Co- developers and Zone Enterprises
- One time exemption from all custom-duties and taxes on the import of capital goods to Zone Developers, Co-developers and Zone Enterprises
- Additional benefits can be granted based on economic impact to promote hi-tech, IT and other sectors or regions
- Now the option for a single enterprise to establish a sole enterprise SEZ is also available provided that
    a) 30% of the investment to be financed from equity
    b) commercial production commences within 24 months
    c) Minimum investment of USD 50 Million or equivalent or Export at least USD 75 Million in the first 5 Years
    d) Relaxation of policy parameters up to 50% for *designated areas* and for *import substitution*

3.4 EXPORT PROCESSING ZONES

EPZA was established through an Ordinance IV of 1980 with the mandate to plan, develop and operate Export Processing Zones in Pakistan. EPZA is an autonomous body working under the Ministry of Industries and Production. EPZA is mandate for setting up EPZs in Pakistan under section 2(K) of its Ordinance. Export Processing Zones Authority (EPZA) is a Pakistan Government venture conceived and designed to increase and improve the exports of the country. Its main objectives are accelerating the pace of industrialization in the country and enhancing the volume of exports by creating an enabling environment for investors to initiate ambitious export-oriented projects in the Zones which would, as a corollary, create job opportunities, bring in new technology and attract foreign direct investment (FDI).

The EPZA management has taken following steps as tasks to industrial promotion in the country

- Duty-free import of machinery, equipment, and materials
- Duty-free vehicles allowed under certain conditions
- Reduced rate of Income Tax @ 1%
- Freedom from national import regulations
- Exchange control regulations of Pakistan not applicable
- Domestic market available to the extent of 20% or higher in specified cases
- Obsolete/old machines can be sold in domestic market of Pakistan
- EPZ units allowed to supply goods to Custom manufacturing bonds in Tariff area

3.5 GWADAR FREE TRADE ZONE

Gwadar is located in the southwest of Pakistan, belonging to Balochistan Province, adjacent to Iran. It is the gateway to the southwest of Pakistan, and is also an important support for Pakistan to promote the coordinated development of domestic regions, ensure national security, and strengthen economic and trade exchanges with neighboring countries. The China-Pakistan Economic Corridor is a connecting belt between the Silk Road Economic Belt and the 21st Century Maritime Silk Road. Thus Gwadar, which is the starting point of China-Pakistan Economic Corridor, is strategically important. Also, the Gwadar Free Zone is a core component of the China-Pakistan Economic Corridor. Its unique geographical location and China-Pakistan co-operation concession policy forms a great base for investment enterprises in Pakistan.

The incentives for Gwadar Free Trade Zones are as follows:

- 100 % ownership for foreign investors in specific sectors.
- Tax holiday for 23 years for businesses related to the Gwadar Free Trade Zone.
- Exemptions of sales tax on certain goods for Zone/Port businesses etc.
- 100 % exemption on customs duties for construction and operation.
- Availability of land/plots with lease period of 99 years.
- Exemptions of sales tax on certain goods for Zone/Port businesses etc.
- Customs duty exemption on Imports for warehousing & transshipment businesses at Gwadar Free Zone Area.

3.6 SPECIAL TECHNOLOGY ZONES AUTHORITY

Special Technology Zones Authority (STZA) is an autonomous authority of the Government of Pakistan established to build the scientific and technological ecosystem through development of zones & acceleration of technology development in the country. Based on the Triple Helix Model of innovation model, the authority brings together technology Industry, Academia & Government services for national socioeconomic development & lays the foundation of Pakistan's knowledge economy of the future. The strategic objectives of the STZA include encouraging a culture of research & innovation, attracting FDI and local investments, job creation, transfer of technology, technology exports & import substitution as well as human capital development.

With the notification of more than 10 zones all across Pakistan, STZA has led to creation of knowledge and employment in technology incentive sectors. The Initiative offers investors several attractive incentives which includes, the opportunity to either become a zone developer or zone enterprise and One-window facility with the creation of STZA.

STZA offers two types of licenses including Zone Developer and Zone Enterprise. Zone developers are those Entities licensed for developing, operating, and managing infrastructure inside a Special Technology Zone to host Zone Enterprises and support services. The zone enterprises are those entities licensed to operate inside the Special Technology Zones for fostering innovation and contributing to the knowledge economy of Pakistan. Another important feature of the STZA is its One-Window Framework which is an integrated & efficient digital and physical platform, designed to harmonize engagement experiences, to provide ease of doing business and compliance for all entities aiming to or operating in STZA enabled zones across the country.

- Incentives for Zone Developers are as following

✓ Exemption from all taxes under the Income Tax Ordinance, 2001 including tax on profits and gains, income tax, turnover tax, withholding tax, capital gains tax, income tax on dividend income and withholding tax on dividend; (Section 20&21 of Special Technology Zones Act 2021)

✓ Exemption from sales tax under the Sales Tax Act, 1990;

✓ Exemption from Customs Duty under the Customs Act 1969 on the import in Pakistan of all Capital Goods including but not limited to materials plant, machinery, hardware, equipment and software, devices, instruments, accessories, attachments, building materials, materials and any other equipment required to perform functions of the Authority, zones and zone developers, whether or not manufactured locally, for use in zones

✓ Exemption from property tax;

✓ Exemption on dividend income and capital gains of any venture capital fund (whether local or foreign) derived from investments in the zone developers; and

✓ Permission for opening and maintaining of foreign currency accounts, availability of foreign exchange, full convertibility to foreign currency and repatriation and free transfer of foreign currency to meet the requirements of investors, lenders, contractors, operators, consultants, insurers, re-insurers, vendors and advisors in relation to any compensation amounts, loan repayments, equity and return on equity, profits, works, goods and services in accordance with the foreign exchange regulations of the State Bank of Pakistan for zones.

- Incentives for Zone enterprises (first 10 years) are as follows
  - ✓ Exemption from all taxes under the Income Tax Ordinance, 2001 including tax on profits and gains, income tax, turnover tax, withholding tax, capital gains tax, income tax on dividend income and withholding tax on dividend
  - ✓ Exemption from sales tax under the Sales Tax Act, 1990
  - ✓ Exemption from Customs Duty under the Customs Act 1969 on the import in Pakistan of all Capital Goods including but not limited to materials, plant, machinery, hardware, equipment and software, devices, instruments, accessories, attachments, building materials, materials and any other equipment required to perform functions of the zone enterprises, whether or not manufactured locally, for use in zones
  - ✓ Exemption from property tax
  - ✓ Tax exemption on dividend income and capital gains of any venture capital fund (whether local or foreign) derived from investments in the zone enterprises; and
  - ✓ Permission for opening and maintaining of foreign currency accounts, availability of foreign exchange, full convertibility to foreign currency and repatriation and free transfer of foreign currency to meet the requirements of investors, lenders, contractors, operators, consultants, insurers, re-insurers, vendors and advisors in relation to any compensation amounts, loan repayments, equity and return on equity, profits, works, goods and services in accordance with the foreign exchange regulations of the State Bank of Pakistan for zones
- Alternate dispute resolution mechanism under the STZA
- The State Bank of Pakistan may issue special foreign exchange regulations for incentives, benefits and exemptions as set out in this Act
- Federal Government may grant additional incentives and exemptions to zone enterprises and zone developers including but not limited to subsidies for electricity, gas and high-speed internet connectivity inside the special technology zones
- Ability to setup power generation

3.7 SCHEMES FOR EXPORT FACILIATAION

EXPORT FACILIATAION SCHEME

Government of Pakistan launched Export Facilitation Scheme (EFS) 2021 vide SRO 957 (I)/2021, effective from 30th July, 2021. Under the EFS exporting businesses are entitled to acquire input goods without payment of customs duty, Federal excise duty, sales tax, or withholding tax. Similarly, the scheme also allows the businesses to acquire plant, machinery, equipment and spares required for the manufacture of output goods by the authorized user under these rules subject to authorization.

All such acquisitions shall be retained in the manufacturing facility or declared premises, provided that such acquistions comply with the following rules:

- Input goods may be imported free of duty and taxes on filing of a Goods Declaration giving number (code) of the authorization granted;
- Local input goods liable to sales tax shall be supplied against a zero-rated invoice
- Input goods manufactured or produced in excisable premises shall be supplied without charging federal excise duty, against a valid document prescribed under the Federal Excise Act 2005
- Duty and taxes paid goods from the domestic market against sales tax invoice.
- Submission of a security instrument equal to the duty and taxes being deferred or remitted, on the approximate value of input goods.
- In case of the plant, machinery and equipment imported under this scheme shall be retained for a period of five years from the date of importation, whereas the retention period of spares is two years from the date of importation (disposal of plant, machinery and equipment before the expiration of five years shall be subjected to following reduced rates of duty and taxes leviable under flexible conditions).
- A manufacturer/user registered under the scheme holding a contract for Toll Manufacturing (an arrangement wherein a foreign principal provides input goods to an exporter to produce finished goods for subsequent export) may import input goods directly or indirectly from the foreign principal without involving any remittance of foreign exchange in light of State Bank of Pakistan rules.
- User of the scheme is allowed to sell up to 20% of the output goods manufactured from input goods in the domestic market on payment of leviable duty and taxes on filing of a Goods Declaration.
- An authorised user is entitled to claim duty drawback on the acquisition of duty paid input goods after full discharge of the liabilities and obligations and that the f. o.b value for claiming such drawback, shall be the value excluding the duty-free value of input goods imported or acquired under this scheme.

- The user is also entitled to the refund of sales tax on the acquisitions of tax paid input goods including refund of Sales tax on electricity or gas or services utilized as input goods for the manufacture of output goods to be exported under these rules, as admissible under the Sales Tax Act, 1990.
- The Acquisition of input goods without payment of duty and taxes under this scheme is granted based on: export performance for last two financial years; and firm contract of export. The applicant can apply for authorization based on both performance and contract basis simultaneously. An applicant having multiple contracts of export is entitled to apply for consolidated approval for all such contracts.
- The application for authorization to operate under this scheme shall be submitted online. The WeBOC or PSW system assigns a unique identification number to each application for authorization.
- In the case of goods other than same-state goods, the inputoutput ratios and wastages are to be declared by the applicant.
- The Government of Pakistan has developed automated system for quick processing of the schemes and provide utmost facilitation.

The Scheme is available for the following inidivdiuals:

- Persons registered as manufacturer-cum-exporter under the Sales Tax Act, 1990)who make value-addition in the manufacture and export of goods, which shall not be less than ten percent.
- Manufacturers who act or intend to act as contracted vendors of the foreign principal as toll manufacturers (an arrangement wherein a foreign principal provides input goods to an exporter to produce finished goods for subsequent export).
- Commercial exporters (a person engaged in purchase and export of goods in the same state from the domestic market or from an indirect exporter and export these goods)
- Persons registered under the Sales Tax Act, 1990, as manufacturer and operating as indirect exporters (a person who has a firm contract or export purchase order from a direct exporter or commercial exporter for the manufacture and supply of goods to such exporter)
- Manufacturers including manufacturers of engineering goods who intend to supply against international tenders
- Common Export House (an authorized warehouse for import, warehouse and supply of input goods without payment of customs duty, sales tax, federal excise duty and withholding tax, to the small and medium export enterprises, direct or indirect exporters or commercial exporters)

ADVANCE RULING

Pakistan Customs helps create certainty in trade and investment decisions by providing legally binding Pre-Entry Advance Ruling on Goods, prior to their importation or exportation. The advance rulings have been operational since 2020 vide SRO 965(I)/2020.

These advance rulings cover the following aspects:

- Classification of goods
- Determination of origin of goods (notified per bilateral or multilateral agreements)
- Duties & Taxes payable on a good
- An applicant desirous of obtaining an advance ruling makes an application to the Advance Ruling Committtce, stating the question on which the advance ruling is sought.
- The Committee examines the application and the attached documents and inform the applicant **within 15 days**, if any further details or documents are required.
- The Committee may direct the applicant to appear in person or through his authorized representative before the Committee to present their view point and to address any queries of the Committee.
- The Committee passes the order within ninetydays from receipt of application with all requisite documents.

3.8 POLICIES FOR EXPORT ENHANCEMENT

STRATEGIC TRADE POLICY FRAMEWORK 2020-25

The Ministry of Commerce (MOC) has prepared the Strategic Trade Policy Framework (STPF) 2020-25, that aims to enhance export competitiveness of Pakistan through a framework of interventions having an impact across the value chains. The STPF intends to make the policy implementation unidirectional by correcting the policy fragmentation. Overall, it aims to enhance the ability of enterprises' capacity to produce, distribute and sell products and services as or more efficiently than is done by the competitors. The STPF document is a living document that remains dynamic as it will be subject to changes based on constant monitoring and evaluation.

This Strategic Trade Policy Framework is based on the following pillars:

i) Rendering exports, a national priority and the primary driver of economic growth, that is both inclusive and sustainable, and is the main viable source of foreign exchange earnings;

ii) Enhancement of exports via a collaborative and cohesive national effort engaging all relevant ministries, departments, government agencies and private sectors so as to ensure policy coherence;

iii) Introduction of strategic interventions in priority sectors under 'Make in Pakistan' initiative.

iv) Alignment of Trade Policy in tandem with macro-economic framework and other national policies such as Taxation, Revenue, Textiles & Industrial Policy, etc.

Following are the guiding principles of STPF:

i) There shall be no element of any duties and taxes on exports. The duty drawback mechanism will be reviewed periodically to make it more simplified, certain and automated.

ii) There shall be continuous regionally competitive energy prices for export-oriented sectors.

iii) The export enhancement support and incentive initiatives should be made simplified, certain and automated performance oriented and time-bound. Scope of initiatives should be enhanced for priority sectors.

iv) There shall be an institutionalized mechanism for robust monitoring and implementation of the STPF in order to minimize the policy implementation gaps, which have traditionally remained a weak link due to multi-organizational roles in the export ecosystem.

Ministry of Commerce has identified following priority sectors which have been bifurcated into traditional and developmental categories:

TRADITIONAL SECTORS	DEVELOPMENTAL SECTORS
• Textile & Apparel • Leather • Surgical Instruments • Sports Goods • Carpets • Rice • Cutlery	• Engineering Goods • Pharmaceutical • Auto Parts • Processed Food & Beverages • Footwear • Gems & Jewelry • Chemicals • Meat & Poultry • Fruits & Vegetables • Sea Food • Services Sector (Special focus on IT, Transport, Logistics & Tourism)

TEXTILE AND APPAREL POLICY 2020-25

Textiles and Apparel sector occupies a pivotal position in Pakistan’s economy having most intensive backward and forward linkages compared to any other sector. Linking agriculture through industry to exports is a distinction which is unique perhaps to this sector. It contributes approximately 60% in total exports of Pakistan and 40% in industrial employment and encompasses distinctive and self-reliant value-added production chain starting from Cotton to Ginning, Spinning, Weaving, Knitting, Processing, Finishing to Apparel and Home Textiles.

Reduce Cost Of Doing Business

- ✓ Concessional energy rates for export oriented sectors
- ✓ DLTL (Duty Tax Remission) for Value-added Products – Garments, Technical Textiles and Made-ups.
- ✓ Continuation of duty-free import of textiles and apparel machinery with addition of spare parts.
- ✓ Tax Credit for Investment
- ✓ Tariff rationalization of entire Textiles and Apparel chain
- ✓ Continuous review of Customs duty drawback rates of textiles and apparel products including additional customs and regulatory duties
- ✓ Simplify temporary importation schemes in perspective of SMEs
- ✓ Pursue FBR to devise new temporary importation scheme to cater fast fashion trends

Financial Support

- ✓ Duty Free Import of machinery & equipment.
- ✓ Exemption of Sales tax on Import of machinery & equipment.
- ✓ Long Term Financing Facility (LTFF) at Concessional Rates.
- ✓ Export Finance (EFS) available at concessional rate of 3.0%.
- ✓ Permission to import restricted items by manufacturers.
- ✓ Fully automated system for Repayment of customs-duties to exporters.
- ✓ Zero Custom Duty for textile products for export to China.
- ✓ Low tariff/exemptions on exports to countries of EU due to GSP+ status.
- ✓ Export facilitation Scheme 2021.
- ✓ Export Finance Scheme (EFS) mark up to continue at 3%
- ✓ Revival of Sick Textiles Units
- ✓ Back-to-Back L/C
- ✓ Credit line for Brand Development and Acquisition

Sector Specific Initiatives

- ✓ Ecouragement to Introduce latest Seed Technology
- ✓ Cotton Hedge Trading
- ✓ Introduce quality/grading-based marketing mechanism for Cotton
- ✓ Initiate Clean Cotton Program
- ✓ Launch Special Technology Upgradation Scheme for Ginning
- ✓ MMF not manufactured locally will be duty free

Infrastructure Development

- ✓ Establish New Garment Cities
- ✓ Revitalization of Karachi Garment City Company (KGCC)
- ✓ Addition of new buildings in Lahore Garment City Company (LGCC) and Faisalabad Garment City Company (FGCC)
- ✓ Establish New Expo Centers
- ✓ Grant SEZ status to existing and new Garment Cities

Marketing

- ✓ Facilitations to International Buying Houses to open offices in Pakistan
- ✓ GSP+ status for upcoming years to avail preferential tariffs in EU

Regulatory Regime and International Compliances

- ✓ Stock taking of entire regulatory regime to highlight changes and adapt international best practices
- ✓ Initiate a compliance programs for SMEs g. Research and Product Development
- ✓ Establish R&D fund to introduce new products and improve quality of existing products h. Human Resource Development
- ✓ Review labor laws specially to allow women to work in three shifts aiming increased women participation
- ✓ Mass level female exclusive textiles and apparel training programs especially in apparel stitching
- ✓ Scheme for women, disabled and handicapped on incremental increase in employment

3.9 SECTORAL POLICIES

The government of Pakistan has announced a number of sectoral policies. The detailed information is in the following table.

SECTOR	INCENTIVES
AutoManufacturing	✓ Reduced Customs duty on import of CKD kits of small cars up to 850cc. ✓ Exemption from Value Added Tax (VAT) on small cars. ✓ No Advance tax on import of Motor vehicles up to 1000 cc. ✓ Low Customs Duty on Import of Hybrid Vehicles Parts. ✓ Low Customs Duty for Vehicle Assembly (New Make or Model). ✓ Low custom duties on Automotive Parts of Vehicles. ✓ Low Custom Duties on Vehicle Assembly ✓ Incentives for Electric Vehicles ✓ No customs duty on import of plant and machinery for manufacture of EVs. ✓ No Sales Tax on imports of CKD kits of EVs. ✓ Low rate of Customs Duty on import of EV CKD & Specific Parts. ✓ Concessionary rate of Customs duty on import of Completely Built EV Units (CBU's). ✓ Low Customs duty on import of Electric Vehicle Chargers. ✓ VAT Exemption on CBU/CKD import of certain type of Electric Vehicles. ✓ Exemptions of Custom duty on Inputs for manufacturing EVs.
Mobile Phone Manufacturing	✓ Custom duty exemption on Import of Capital goods for Mobile Manufacturing. ✓ Customs duty exemption on import of mobile phones in CKD/SKD form. ✓ Exemption of VAT on import of mobile Phones. ✓ Locally assembled /manufactured phones are exempted from withholding tax on domestic sales. ✓ Advance tax on specific mobile phones in CKD/SKD form is exempt. ✓ Low rate of Sales tax on CKD/SKD condition mobile phones. ✓ R&D allowance of 3% to be given to local manufacturers for exports of mobile phones.
Renewable Energy	✓ Exemption from custom-duties and taxes on import of equipment ✓ Exemption from income tax / withholding tax and sales tax

	✓ Repatriation of equity along with dividends freely allowed ✓ Convertibility of PKR into USD ✓ Attractive tariff (cost plus 17% ROE), indexed to inflation & exchange rate variation (Rupee / Dollar) ✓ Government's sovereign guarantee ✓ Permission to issue corporate registered bonds ✓ In addition ✓ Wind risk (risk of variability of wind speed). ✓ Guaranteed electricity purchase by power purchaser ✓ Grid provision is the responsibility of the purchaser ✓ Carbon credits available.
Power Generation	✓ Exemption of tax on income from power generation projects ✓ Reduced tax rate of 7.5% against 15% standard rate on dividend to shareholders ✓ Exemption of minimum tax on turnover.
Green Field Oil Refinery Policy (2023) Awaiting Final Approval	✓ All new deep conversion oil refinery projects, to be set up anywhere in the country, that achieve financial close of the project within 5 years after the notification of the draft policy, shall be eligible for the following fiscal incentives: ✓ For minimum 300,000 bpd refinery, there shall be a customs duty of 7.5% for a period of twenty-five (25) years on Motor Gasoline and Diesel of all grades produced by the refineries, effective from the date of commissioning of the refinery. ✓ For minimum 300,000 bpd refinery, there shall be 20-year income tax/levies holiday of all taxes under the Income Tax Ordinance 2001, from the date of commencement of commercial production of the project. ✓ For refinery having less than 300,000 bpd capacity, there shall be a customs duty of 7.5% for a period of ten (10) years on Motor Gasoline and Diesel of all grades produced by the refineries, effective from the date of commissioning of the refinery. ✓ For refinery having less than 300,000 bpd capacity, there shall be 10-year income tax/levies holiday of all taxes under the Income Tax Ordinance 2001, from the date of commencement of commercial production of the project. ✓ Exemption from levy of customs duties /levies, surcharges, withholding tax, general sales tax, any other ad valorem tax or any other levies/duties on import of any equipment to be installed, or material to be used in the refinery projects without any precondition for obtaining certification by the Engineering Development Board.

Oil & Gas	✓ Income tax holiday for 20 years ✓ Exemption from all duties, taxes, surcharges and levies on import, by a refinery project ✓ Provision of a pricing mechanism which shall be no less favorable than the prevailing mechanics ✓ Facilitation in infrastructure such as Single Point Mooring (SPM), Jetties, subsea/ land pipelines etc. ✓ Waiver of Development Surcharge (DS) on the value of exports under the Export Processing Zones Authority (EPZA) Rules, 1981. ✓ The imported crude oil transportation pipelines and its storages will be integrated part of the refinery project and will also avail all incentives as given above ✓ Minerals and Industrial Gases Safety Rules, 2010, approved by the CCLC on 14-11-2023 and notified. ✓ Exemption from PPRA rules for approval of the PLL to avoid curtailment of RLNG supply in winters of FY2023-24, granted by Federal Cabinet on 16-11-2023. ✓ PLL has procured the required cargoes for winter 2023-24 to meet the gas demand. ✓ Declaration of Nagarparkar as SEZ: Approved by provincial cabinet. ✓ Mineral Cell established by Petroleum Division.
Coal Mining	✓ Exemption of tax from income of coal mining projects ✓ Exemption from minimum tax on turnover ✓ Exemption from withholding tax from dividend received by shareholders for 30 years ✓ Input tax adjustment for power producing units using Thar coal ✓ Free of sales tax on import of coal-mining machinery and equipment for Thar coal
IT & ITeS (New incentives)	✓ 100% retention for foreign exchanges are allowed. ✓ Tax Credit Regime for export of IT & ITes Businesses. ✓ Tax Credit Regime and Specific provision for Startups. ✓ One percent tax on the proceeds of exports in case tax credit is not available. ✓ Sales Tax exemption on export of IT Services in Islamabad Capital Territory. ✓ Up to 100% foreign ownership of IT & ITeS companies. ✓ Provision of IT enabled office space in Software Technology Parks (STPs). ✓ Up to 100% repatriation of profits for foreign IT & ITes investors.

	✓ 35% of export earnings can be retained in foreign currency for making payments abroad. ✓ No sales tax on export of Services by Call Centers in Sindh. ✓ Low sales tax rate on IT based services in Punjab. ✓ Reduced rate of sales tax on IT based services in KPK. ✓ Low rate of sales tax on Information Technology based services in Balochistan.
Pharmaceutical	✓ Pharma raw materials exempt from sales tax. ✓ Zero percent duty on import of multiple drugs. ✓ API's exempted from Customs Duty. ✓ Low Customs duty on import of Plant and Machinery. ✓ Low customs duty on import of Excipients/Chemicals. ✓ Refinance facility under the Export Finance Scheme for Consultancy Services. ✓ Exemption of Customs duty on import of pharma grade Gelatin
Food Processing	✓ Low rate of customs duties on import of capital goods used in Livestock Sector. ✓ Low custom duties on capital goods used for handling, processing and storage of ✓ Vegetables, Fruits, Food items etc. ✓ Low rate of customs duties on import of seafood processing machinery and equipment. ✓ Low rates of customs duty on import of capital goods used by Food Processing Industry. ✓ 0% customs duty on capital goods for setting up Fruit Processing in specific areas. ✓ Concessional rate of customs duties on import of ingredients for preparation of Value ✓ Added Chicken Products (VACP). ✓ Sales tax exemption for import/supplies of livestock, meat etc. ✓ Zero percent customs duty on import of Sugar. ✓ Specific items related to food are exempt from withholding tax

Logistics	✓ Custom Duty Exemption on import of Aircraft & related items. ✓ No Sales Tax on supply/import of goods for setting up workshops and Greenfield airports. ✓ Exemption from Advance Tax on import of Aircraft & related items. ✓ No Custom duties on import of Ships, other floating and specialized crafts. ✓ Zero percent Sales Tax on supply, repair, spare parts for ships. ✓ Sales tax exemption on import of container for cargo transportation. ✓ Exemption of Advance Tax up to 2030 on import of Ships and other floating crafts. ✓ Tax credit available for ship building business. ✓ Presumptive Taxing for ships/vessels flying Pakistani flag. ✓ Shipping industry allowed to avail Long Term Finance Facility. ✓ Customs duty exemption on Imports for warehousing & transshipment businesses at Gwadar Free Zone Area. ✓ Low Tax rate on Income from Freight related Services.
Tourism and hospitality	✓ Reduced duty on pre-fabricated structures for hotels and on machinery and equipment. ✓ Sales tax exemption for import of capital goods for Hotels in Gwadar area. ✓ Set off of losses of companies operating hotels. ✓ Tourist Visa on Arrival. ✓ Business Visa on Arrival. ✓ Refinance facility under the Export Finance Scheme for Consultancy Services. ✓ Services provided by Hotel's exempt from Income tax deduction.
Housing and Construction	✓ A new fixed tax regime from the tax year 2020 and onwards, for Eligible Builders and Developers. ✓ Eligible Developers and Builders shall be exempted from withholding taxes on the purchase of building materials. Dividend income paid to a person by a builder or developer company out of the profits and gains derived from a project shall be exempt from tax and also from tax withholding obligations. ✓ Capital gains received by an individual on the sale of residential property (personal/ family), house or flat, have been exempted from income tax. ✓ The State Bank of Pakistan (SBP) has made it mandatory for banks to ensure that the financing for housing and the construction of buildings (Residential and Non- Residential) shall be at least 5 percent of their domestic private sector credit by December 2021

General (Income Tax Ordinance, 2001)	✓ Tax credit for employment generation by manufacturers – the rate 2% of tax payable for every 50 employees. (64B) ✓ First year tax credit for enlistment – the rate of 20 % of tax payable for registration in Pakistan. (65C) ✓ 5-year tax holiday - the form of 100% tax credit allowed for new industrial undertaking before 30 June 2021 (65D) ✓ First year investment allowance for industrial undertakings in specified rural and underdeveloped areas. (23A)

4 CONTACT INFORMATION

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