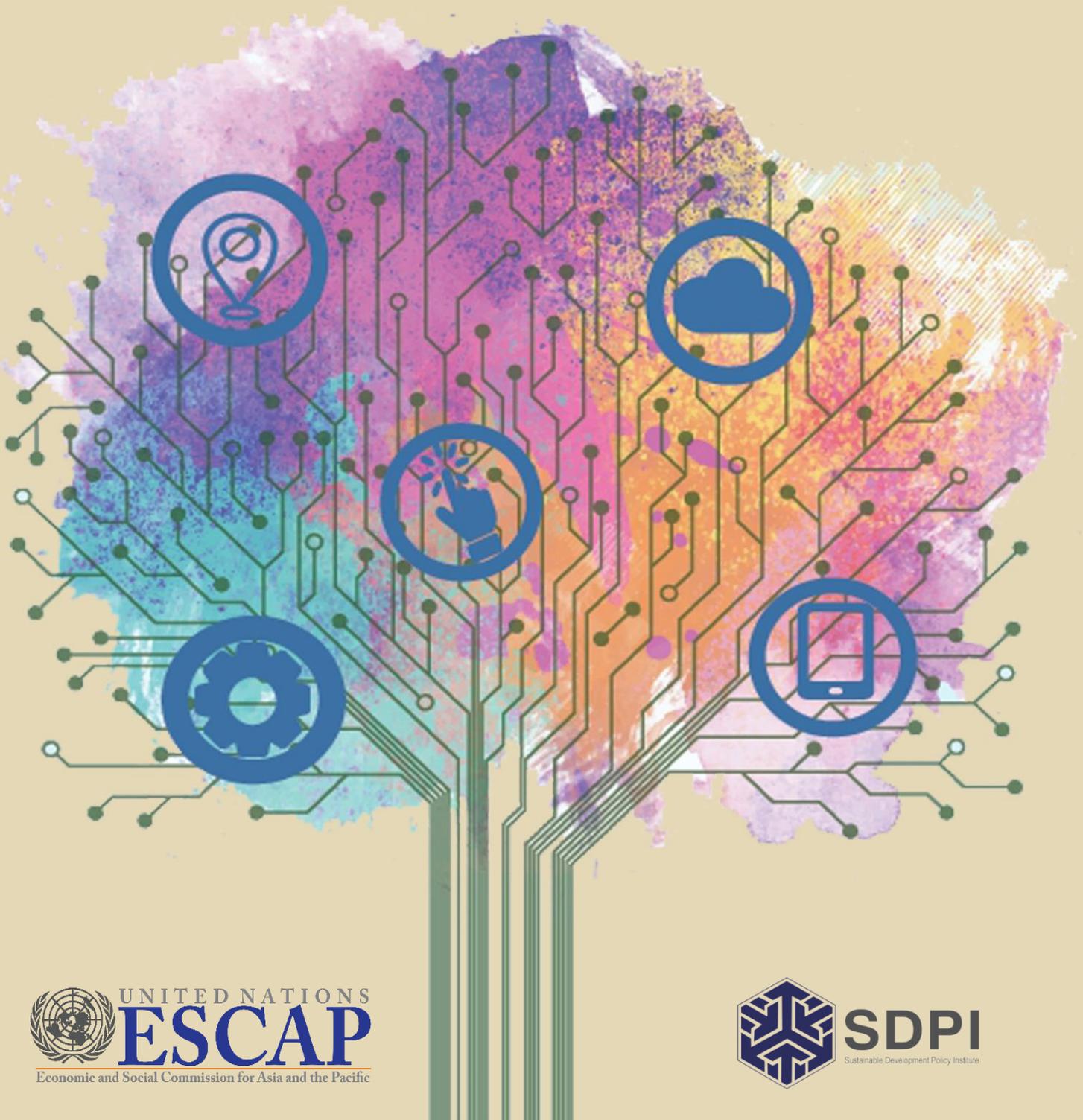


NATIONAL STUDY ON DIGITAL TRADE INTEGRATION OF PAKISTAN



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Abstract

This report provides an overview of digital trade integration of Pakistan. It identifies constraints and bottlenecks in achieving successful and sustainable regional digital trade integration. The methodology relies on an extensive review of recent literature and policies within and outside Pakistan. In particular, the report looks at post-pandemic evidence with regard to digital trade integration. In-depth interviews were conducted with relevant public sector bodies, regulatory organizations, the private sector, citizen groups, think tanks, development partners and other related stakeholders. The report considers digital trade in goods and services involving digitally-enabled transactions involving consumers, firms and Governments. The analysis highlights the constraints that hinder trade and foreign investment in digital trade. The legislative and regulatory requirements for transfer, retention and protection of data, together with the constraints faced in the transition towards the digitization of the economy are discussed. The recommendations made in this report will help to achieve goals under recent policies announced for the uplifting of the digital sector. The report recommends a whole-of-the-government approach to ensuring federal- and provincial-level coordination as well as keeping digital trade integration inclusive.

Executive Summary

This report aims to identify constraints and bottlenecks in Pakistan for achieving successful and sustainable regional digital-trade integration. There is emerging evidence on this subject. We have relied on an extensive review of recent literature and policies within and outside of Pakistan. We have particularly looked at post-pandemic evidence on this subject. In-depth interviews were conducted with relevant public sector bodies, regulatory organizations, private sector, citizen groups, think tanks, development partners and other related stakeholders to understand their perspectives on constraints in achieving digital trade integration.

We considered in this report digital trade in goods and services, defined as any form of digitally-enabled transactions involving consumers, firms and governments. The legislative and regulatory requirements on transfer, retention, and protection of data along with the constraints being faced in the transition towards digitization of economy, barriers preventing trade and investment in digital goods and services are discussed in this report. We recommend a whole-of-the-government approach to ensure federal and provincial level coordination as well as to keep digital trade integration inclusive.

To promote digital trade integration we advocate here that the implementation of three policy frameworks formulated by MoITT may be expedited. These include, information security policy, personal data protection law, and cloud computing policy. The report suggests that Strategic Trade Policy Framework (STPF) formulated by MoC can incentivize both public and private enterprises to embrace digital transformation on a priority basis. Such policy certainty could help lure investment and improve readiness of firms to move on a higher technological and sophistication ladder.

The central bank could play a supporting role. SBP could address the funding and finance constraints faced by firms wishing to expand trade online. The central bank could further incentivize the expansion of branchless banking network (including mobile money agents) in rural areas and possibly partner with Pakistan Post. Regular and improved training of branchless banking agents also needs to be ensured by the digital financial service providers. The ability to raise capital from inside Pakistan to fund the growth of digital businesses is limited. SBP and Pakistan Banks Association could ensure dedicated model branches of banks to deal with digital and creative enterprises.

The micro and small (digital) businesses continue to face issues regarding the acceptability of collateral demanded while borrowing from banks. SECP and SBP could help fast-track loans against intellectual property rights. The federal government in the short term should support this with time-bound guarantees in Pakistani rupee.

Federal government may also like to reconsider the mandatory condition on telecommunication companies to deposit a fee for importing equipment from abroad. The overall export value allowed per consignment, without the need for cumbersome documentation, could be enhanced.

Apart from improving connectivity infrastructure and internet penetration rate, efforts are desired to improve digital literacy; confidence of online consumers; and overall financial inclusion. Pakistan's low ranking in the region in terms of cross-border paperless trade and women-related trade facilitation needs attention. The relatively high quantitative trade

restrictions, and rigid domestic data policies have also hindered Pakistan's elevation towards a higher rank.

Currently, there is no single compendium that provides national-level consolidated details of public spending on digital sectors uplift. MoITT could furnish such a knowledge resource on an annual basis which could in turn help set a baseline and prevent duplication of similar publicly funded projects in this sector. The special technology zones currently being planned in select cities could be a good template for other cities to follow as well. The location economies could bring down the overall financing envelop required by smaller businesses to embrace digital platforms. The public private partnership model could help raise more special technology zones.

The track record of state-owned enterprises (SoEs) in embracing digital trade hasn't been encouraging. SoEs should prioritize installation of enterprise resource planning systems and e-communication tools which will become stepping stone towards digital integration. To improve overall documentation and drive towards digitization, government utility providers could make it mandatory to receive only cashless payments and fees beyond a certain threshold. Similarly, attestation of documents should be done electronically.

The supportive role of federal and provincial tax authorities will be essential for trade competitiveness in digital sector. Tax harmonization across the country should be prioritized so that digital trade products and services do not face differentiated treatment in different parts of the country. The definitions of tax bases and tax rates should also be in line with the peers in the region.

Pakistan Stock Exchange could expedite its plans for starting a dedicated trading index (for digital sector). This could put a few technology companies into a pre-initial public offering (pre-IPO) phase.

Increased trade diplomacy can help improve acceptance of Pakistani goods and services abroad. Government may increase diplomatic efforts to negotiate with key trading partners, preferential visa access for Pakistani professions to travel abroad and showcase their digital goods or services. This issue can also be resolved by ensuring visa-related clauses in the future FTAs in services.

Pakistan is still not a member of the Patent Cooperation Treaty (PCT). The enforcement bodies are faced with legislative, jurisdiction, capacity and financial constraints which need to be addressed given concerns expressed by firms in the creative sectors. The enforcement drive will require support from the Ministry of Interior and provincial governments. Furthermore, this will also have to be accompanied by social messaging and behavioural change campaign.

Existing consumer protection laws do not fully cover digital sectors and their activities. The report stresses that federal and provincial governments need to bring more up-to-date consumer protection legislation or amendments to existing laws to protect consumers and enhance trust in online trade. This is particularly important now as countries adapt to COVID-19 and learn to live with its impacts.

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