

JICA Country Analysis Paper
for
Islamic Republic of Pakistan

Japan International Cooperation Agency
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JICA Country Analysis Paper (JCAP) is a paper in which countries are analyzed by JICA, as a development assistance agency, from the viewpoint of development and is to be utilized in considering and providing effective cooperation to ODA recipient countries. JCAP provides information from the viewpoint of development for the government of Japan in formulating aid policies such as “country assistance policy”. It is also noted that actual cooperation and projects to be implemented shall be considered and determined in accordance with policies of the government of Japan, and budget of each fiscal year, etc.

Executive Summary

(Note: This paper was produced before floods from mid-June 2022 and does not include an analysis of the impact of floods.)

- (1) Pakistan has the fifth largest population in the world, with approximately 220 million (2020), and the second largest population in South Asia. In terms of socio-economic indicators, the per capita GNI is USD 1,530 (2021), and, prior to the 2019 currency crisis, an average GDP growth rate over 5% had been achieved for the five years from 2014 to 2018 expanding the middle-class population, and the poverty rate (living with 1.9 USD per day, or less) also reduced to about 4%. The population growth rate also continues to be about 2% per year, and the peak demographic bonus is expected in 2045. On the other hand, social indicators are generally challenging (particularly health, education, and water, etc.), and the country is also one of the most vulnerable countries to disasters (i.e., 8th most in the world) which could constrain economic growth. In addition, gender indicators are among the lowest in the world, and it is vital to protect women's rights and to promote women's socio-economic empowerment for achieving quality growth.
- (2) Pakistan is geopolitically placed at historic location between South Asia and Middle East, surrounded by India, China, Afghanistan, and Iran. In addition, Pakistan has the second largest Muslim population in the world. Socio-economic stability of Pakistan is geopolitically extremely vital for the realization of a Free and Open Indo-Pacific (FOIP).
- (3) Regarding the economy, an annual economic growth of about 5% had been achieved from 2014 to 2018. This growth was mainly driven by the construction and manufacturing industries especially through the China-Pakistan Economic Corridor (CPEC), but due to an increase in the import of materials for construction, current account deficit also increased accordingly. In FY2018/19, there was a foreign currency crisis with a deadlock in foreign debt payments and responding to the requests by the Government of Pakistan, the 13th IMF Extended Fund Facility (EFF) Program has started since July 2019. Some of the key challenges of the on-going IMF-EFF program are mitigating public financial deficit by a)

improving the balance of international payments, b) reducing public expenditure such as subsidies, c) improving circular debt of power sector, d) promoting privatization of state-owned enterprises, etc. Although the IMF Debt Sustainability Analysis (2022) rates the country's public debt as "sustainable", it should be noted that the public debt is also on the rise. Given the current war in Ukraine, there has been a continuous surge in import expenditure with the rising prices of crude oil, and food products such as food oil and wheat, etc. This has been leading macro-economic instability by increasing the trade deficit, along with a depreciating Pakistan rupee as well as accelerating inflation. Therefore, it is critical to pay close attention to debt sustainability.

- (4) In terms of industrial structure, the GDP sector compositions for FY2021 is 58% for service sector, 23% for agriculture, and 19% for manufacturing. Manufacturing is one of vital pillars for exports, covering 25% of the country's workforce, as well as covering 55% of total exports in the textile industry. However, given the low added value of export items, there is an urgent need to foster export-oriented, high value-added industries and to diversify industries from the perspective of eliminating the trade deficit. In order to develop export-oriented industries, it is important to raise the technical skills of the domestic manufacturing industries through more entries of internationally competitive foreign capital to the market, and therefore it is also crucial to promote foreign direct investment (FDI).
- (5) Regarding (i) peace, and (ii) stability in governance and security, Pakistan has traditionally deep historical, political, economic, social, and ethnic relationships with neighboring Afghanistan, and has hosted more than 1.4 million Afghani refugees as a long-term resident in Pakistan. Since August 2021, after Taliban has gained control of Afghanistan, there has been a new influx of Afghans as well as constant influences of security over the border region between Pakistan and Afghanistan. Given this background, there is a high need for support for Pakistan, as one of neighboring countries of Afghanistan, since this may also affect the peace and stability of Pakistan as well as of those in its surrounding region.
- (6) Under its national plan "Vision 2025", the Government of Pakistan has listed seven priority areas including human capital, economic infrastructure and

private sector development, etc. The former government administration emphasized more focus on social development, addressing a) governance reform; b) enhanced federation; c) inclusive economic growth; d) improved agriculture and the conservation of water resources; e) social service reform; and f) national security as its key pillars.

- (7) Regarding other development partners, China is promoting the development of major infrastructure with a focus on power and transportation sectors through CPEC. On the other hand, the World Bank and the Asian Development Bank (ADB) and some other development partners have strengthened their efforts for social development and economic revitalization.
- (8) To ensure human security and achieve high-quality economic growth, it is essential to improve and expand social development services such as health, education, besides promoting economic growth through the improvement of business and investment environment along with the enhancement of international competitiveness. It is also important to maintain peace, stability in governance, and security, from a geopolitical perspective in relations with Afghanistan and other countries.
- (9) Given the above backgrounds, JICA defines its cooperation priority sectors as Education, Health, Economic Empowerment of Women and Youth, Water, Sanitation and Hygiene (WASH), Agricultural and Rural Development, Disaster Risk Reduction (DRR), Industry, Power sector, and Peace and Stability (see table in page5). In addition to these priority sectors, the key cross-cutting considerations are: a) accumulation of human capital; b) mainstreaming gender equality; c) adaptation and mitigation to climate change; d) enhancing regional connectivity; and e) mainstreaming digital transformation. To maximize collective impact to support efforts of the Government of Pakistan for social and economic development, JICA will keep dialogue with other development partners such as the World Bank, ADB, UN agencies and bilateral, local and private partners etc. Valuing capacity development as JICA's strength, JICA will extend its cooperation through combining both financial and technical cooperation.
- (10) In the implementation of cooperation programs, JICA will carefully consider

following points: a) roles and mandates of federal and provincial governments; b) improving governance; c) debt and macroeconomic stability; d) geopolitical perspectives; e) maintaining and enriching human networks through all programs for co-creating impacts with diverse partners; f) security considerations; and g) further strengthening partnership with private sector.

JICA's Cooperation Programs in Pakistan (Updated in October 2022)

Basic Policy of Cooperation: Building of a stable and sustainable society through expanding a vibrant middle class			Accumulation of Human Capital, Mainstreaming Gender Equality, Mitigation and Adaptation to Climate Change *, Enhancing Regional Connectivity, and Mainstreaming Digital Transformation
Priority Areas	Key Targets	Development Programs	
Ensuring Human Security and Social Stabilization through Human Capital Investment and Social Service Expansion	Improvement of Quality and Access of Education	Education program	
	Securing Basic Health Service	Health program	
	Enhancing Economic Empowerment of Women and Youth	Women and Youth Economic Empowerment Program	
	Securing Access to Safe Water and Sanitation	Water, Sanitation and Hygiene (WASH) program	
	Agriculture and Rural Development	Agriculture and Rural Development program	
	Securing Resilience against Natural Disasters	Disaster Risk Reduction (DRR) Program	
Enhancing High Quality Economic Growth through Improvement of Investment Environment	Ensuring Economic Stability and Promoting Diversification of Industries	Promoting Industry and Improvement of Investment climate Program	
	Achieving Stable Power Supply with Efficiency	Power Sector Program	
Establishment of Peace and Stabilization	Peace Building and Governance Enhancement	Border Areas Development and Stabilization Enhancement Program	

*Mitigation and Adaptation to Climate Change is to be covered through 5 relevant sectors: WASH, Agriculture and Rural Development, DRR, Industry and Power sector programs (in gray color).

Reference: JICA's Cooperation Programs in previous JCAP (FY 2014)

Priority Areas	Key Targets	Development Programs	Priority
Improvement of Economic Infrastructure	Ensuring Economic Stability and Promoting Diversification of Industries	Power sector development program	◎
		Promoting industry and improving investment climate program	◎
	Development of agricultural and rural sectors	Agriculture and Rural Development program	○
Ensuring Human Security and Improvement of Social Infrastructure	Improvement of basic social services	Health program	
		Water and Sanitation program	○
		Disaster Risk management Program	○
Consolidating Peace and Stability	Supporting the stabilization and development of Border Areas	Border Areas stabilization and development program	
Other important issues	Counter-terrorism		