Evaluation of Export Sector of Pakistan; Policies, Regulations and Practices

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Abstract:

The export sector plays a pivotal role in driving economic growth and prosperity, serving as a reflection of a country's development. Pakistan, facing an economic crisis, heavily depends on its exports to overcome challenges, yet its export performance remains inconsistent. Despite introducing policies such as the Strategic Trade Policy Framework (STPF) 2020-25, Textile and Apparel Policy, and Digital Pakistan Policy, implementation has often been fragmented. This paper analyzes existing export policies, identifying gaps and suggesting reforms to boost export competitiveness. Issues such as inconsistent policies, tariff imbalances, delayed implementations, and infrastructure deficiencies hinder growth. Additionally, the focus on textile exports and limited diversification restricts market expansion. To revitalize the export sector, comprehensive measures are recommended, including rationalizing tariffs, improving infrastructure, fostering technology adoption, and enhancing trade financing. Addressing these challenges is critical for Pakistan's sustainable economic recovery and long-term export growth.

Key words:

Export Growth, Trade Policy, Pakistan Economy, Export Diversification, Economic Crisis

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Introduction

Exports are a cornerstone of economic growth, contributing significantly to the prosperity and development of any nation. By serving as a vehicle for foreign exchange earnings, exports help fuel industrial growth, provide employment, and stabilize the balance of payments. For countries such as Pakistan, exports are even more critical due to the ongoing economic challenges. Pakistan’s export performance has, however, been inconsistent over the years. While certain sectors, such as textiles, continue to dominate the export landscape, the overall diversity and competitiveness of Pakistan’s export basket remain suboptimal. Despite the country’s rich natural resources, strategic geographic location, and large labor force, it has not been able to fully capitalize on these assets to boost its export sector.

Pakistan, a developing country heavily reliant on agriculture and textiles, has witnessed significant fluctuations in its export performance, with limited progress in diversifying its export base. The nation’s exports have traditionally been concentrated in textiles, agricultural products like rice and cotton, and some manufactured goods. Although the country’s export of textiles surged to $19.37 billion in 2021-22, Pakistan has faced a declining trend in the export of other products, such as rice and cotton, signaling the lack of diversification within the export sector. This over-reliance on a few export categories has made Pakistan vulnerable to external shocks, such as fluctuations in global commodity prices and trade disruptions, limiting its potential for sustained economic growth.

In recent years, the government of Pakistan has recognized the importance of a robust export sector and introduced a range of policies and frameworks to promote exports. These include the Strategic Trade Policy Framework (STPF) 2020-25, the Textile and Apparel Policy 2020-25, and the Digital Pakistan Policy 2018, all aimed at enhancing the country's export competitiveness. The STPF 2020-25, in particular, focuses on improving the performance of key sectors, reducing the trade deficit, and boosting Pakistan’s export volume. Despite these efforts, the implementation of these policies has been inconsistent, and the country continues to face several structural issues that prevent the effective growth of exports.

One of the primary challenges facing Pakistan’s export sector is policy inconsistency. The frequent changes in trade policies and fiscal regulations have created uncertainty for exporters, making it difficult for businesses to plan and invest for the long term. The withdrawal of the zero-rating tax policy in 2013 and the introduction of new tax schemes resulted in delays in tax rebates, which placed a financial burden on exporters. Similarly, the government’s commitment to providing energy at competitive rates to the export sector has not been fulfilled, further exacerbating the difficulties faced by industries. Such policy gaps have contributed to a lack of confidence in the export sector, hindering growth and development.

Another significant challenge lies in the tariff policy and its impact on the competitiveness of Pakistani exports. While Pakistan's tariff system is designed to generate revenue, it has inadvertently created an anti-export bias. High import tariffs on raw materials, machinery, and intermediate goods have increased the cost of production for domestic industries, making their products less competitive in international markets. Furthermore, the difference in tariff rates for industrial and commercial importers has led to inequities in access to inputs, particularly for small and medium enterprises (SMEs). The absence of a rationalized tariff structure has undermined the potential of Pakistan's export industries to become globally competitive.

Infrastructure deficiencies are another barrier to the growth of exports in Pakistan. Although the government has made commitments to improve the country's infrastructure, progress has been slow. The inadequacy of transportation and logistics networks—such as roads, ports, and airports—has raised the cost of exporting goods, making Pakistani products less competitive in international markets. Furthermore, delays in infrastructure development, particularly in the areas of road and port facilities, have created bottlenecks that hinder the smooth movement of goods, leading to higher transportation costs and reduced efficiency. These logistical challenges are compounded by the lack of modernization in the country's industrial sectors, which has prevented industries from adopting the latest technologies and improving productivity.

The issue of export diversification also poses a significant challenge. Pakistan's export basket remains overly dependent on textiles, which account for around 60% of total exports. While textiles have traditionally been a strong performer, they are vulnerable to global market fluctuations, such as changes in consumer demand, raw material prices, and trade policies. The lack of diversification into high-value and innovative sectors, such as electronics, machinery, and services, has limited Pakistan's potential for sustained export growth. Additionally, agricultural exports, though important, remain concentrated in a few commodities like citrus fruits, mangoes, and rice. There is untapped potential to expand the range of agricultural exports and develop new products for export markets.

The issue of financing is another critical factor limiting the growth of Pakistan's export sector. Exporters in Pakistan often face challenges in accessing trade financing, particularly due to the ongoing financial constraints in the country. The scarcity of funds and the high cost of borrowing have made it difficult for exporters, especially SMEs, to invest in expanding their operations or upgrading their technology. The lack of access to finance also affects the ability of exporters to meet international quality standards, invest in marketing, and expand into new markets. Additionally, the ongoing dollar crisis in the country, which has led to a shortage of foreign exchange reserves, has created additional obstacles for exporters in terms of meeting their import requirements and fulfilling international trade obligations.

In conclusion, while Pakistan's export sector holds significant potential for driving economic growth, a combination of policy inconsistencies, structural weaknesses, infrastructure deficiencies, limited diversification, and financial constraints has prevented the sector from realizing its full potential. To overcome these challenges, the government needs to take a more proactive approach by ensuring consistent and coherent policy implementation, improving infrastructure, rationalizing tariffs, facilitating export diversification, and enhancing access to finance. Only through a comprehensive and integrated approach can Pakistan's export sector achieve sustainable growth and contribute meaningfully to the country's economic recovery.

Problem Statement

Pakistan's export sector, a critical driver of economic growth, has faced persistent challenges despite the introduction of various policies and frameworks aimed at boosting competitiveness. The country's export performance remains inconsistent, with an over-reliance on textiles and agricultural products, limiting diversification and growth potential. The lack of effective policy implementation, coupled with infrastructure deficiencies, tariff imbalances, and financial constraints, has hindered the sector's ability to fully capitalize on available resources and global trade opportunities. Furthermore, the export sector struggles with inconsistent government policies, delayed infrastructure projects, and inadequate access to trade financing, which have created an uncertain business environment. These issues have contributed to a stagnant export growth trajectory, impeding Pakistan's efforts to improve its balance of payments and alleviate the ongoing economic crisis. This research seeks to identify the underlying factors restricting Pakistan's export growth and provide actionable recommendations to enhance the competitiveness, diversification, and overall performance of the export sector.

Gap Analysis

After evaluating the policies, regulations, and practices, the following issues and challenges have been identified and subsequently analyzed for gap identification to move towards a plausible conclusion. The gap analysis is as follows:

Policy in Question	Initial Commitment	Actual Status/Challenge	Desired
Low Output Quality	Quality enhancement to develop trust in international trade	Non-compliance with international standards inhibited growth in exports.	Encourage a competitive environment, as competition is the basic impetus to ensure quality.

Trade Policy	An exclusive focus on goods	Export of services has never been the focus.	In the digital era, the export of services is becoming increasingly important.
Value Addition and Export Promotion	M/o Commerce & Trade, in collaboration with MOFA, will focus on export promotion by conducting trade fairs, exhibitions, and festivals in host countries to introduce its products.	Due to lack of diversification and value addition, as well as a lack of enthusiasm from the Pakistani mission abroad, export promotion efforts in host countries have been ineffective.	Industries should focus on market competitiveness. A coordinated effort by the industry, M/o Commerce, MOFA, and the missions abroad is required to promote Pakistani products at international trade shows.
Export Product Diversification	The textile and apparel policy STPF committed to diversifying export products and expanding the export basket.	Export products have not been diversified as committed in the last three policy frameworks.	To expand Pakistan's exports, product diversification is crucial.
Market Access	Policies committed to identifying new avenues for Pakistani exports, such as the Look Africa policy launched in 2018.	Pakistan has limited market access in major markets worldwide.	Pakistan should enhance market access by adding value to products, launching high-tech products, and making products cost-effective while complying with international standards.
Tariff Policy	Zero rating for the import of raw materials, manufacturing plant machinery, and equipment.	Zero rating was withdrawn in 2013, and a tax adjustment scheme was introduced, causing bureaucratic hurdles and delays in tax rebates.	Tariff regularization and rationalization should be implemented in letter and spirit, as the government's withdrawal from

			commitments to the export sector has impeded export growth.
Outdated Technology	A Technology Upgradation Fund was created in the previous policy to support the industry in upgrading and shifting towards the latest technology in the textile industry.	The Technology Upgradation Fund could not materialize due to the unavailability of funds from the government.	The creation and allocation of funds for technological upgradation are crucial for industry growth, as the textile world has moved towards modern technology, and Pakistan is lagging behind.
Letter of Credit	Initially, the government and the state were under obligation to pay liabilities to those within the country or external agencies doing business with Pakistani exporters.	Due to the economic crisis, the State Bank stopped the opening of LCs for the past one and a half years.	The government must ensure the opening of LCs to avoid being declared in default and ensure smooth operations in the export sector.
Dollar Disparity	The business community undertakes deals with foreign importers under the assumption that the dollar will remain stable, with the SBP ensuring the stability of the Pakistani currency through policy measures.	The dollar has been unstable for the past two years, increasing the cost of raw materials, machinery, and equipment, which has made Pakistani products uncompetitive in the global market.	Measures must be taken to prevent further devaluation of the Pakistani currency, as it has already declined significantly. This is necessary to save the industry and enable export growth.
Tax Regime	Initially, in Vision 2025, exports were exempt from income tax until 2025.	The government withdrew this commitment in 2021 and introduced a tax credit scheme.	The government must fulfill its commitments to avoid a trust deficit between the state and the business community.

Infrastructure Development	The Textile and Apparel Policy 2014-19 committed to enhancing infrastructure to support the growing export industry and ensure efficient transportation.	Despite the commitment, infrastructure remains inadequate and has not improved transportation channels for speedy export growth.	Infrastructure, such as roads, ports, and airports, needs urgent improvement, considering the government's financial constraints, to ensure cost-effective transportation of goods.
Trade Financing	The Textile Policy, Digital Pakistan Policy, and Strategic Trade Policy Framework committed to financing trading activities.	Trade financing and access to trade financing remain limited due to the scarcity of funds caused by the country's financial crunch.	Loans with longer repayment durations, lower interest rates, and reduced bilateral requirements can help Pakistani startups overcome financial constraints.
IT Policy 2000	Creation of an IT Fund, protection of intellectual rights, protection of electronic crimes, and a one-window solution.	Delayed implementation of policy decisions. The IT Fund was created in 2006, the IPO was created in 2012, PECA was created in 2016, and the National Single Window Act was enacted in 2017.	As fixed timelines were not provided, it took nearly two decades to fulfill the commitments made in 2000. Therefore, timelines should be incorporated into the Digital Pakistan Policy of 2018.

Challenges

- **Inconsistency of policies**: The tariff policy's zero rating was withdrawn in 2013, and a tax adjustment scheme was introduced, causing bureaucratic hurdles and delays in tax rebates.
- **Fiscal constraints**: The Trade Upgradation Fund could not be materialized.
- **Delayed implementation of policy decisions**: The first IT Policy was approved in 2002, whereas, as per recommendations, the IT Fund was created in 2006, the IPO was created in 2012, PECA was created in 2016, and the National Single Window Act was passed in 2017.
- **Tax Regime**: The government withdrew its commitment in 2021 and introduced the Tax Credit Scheme.
- **Letter of Credit**: Due to the economic crisis, the State Bank stopped the opening of LCs during the last one and a half years.
- **Dollar parity**: The dollar has been unstable for the last two years, which has multiplied the cost of raw materials, machinery, and equipment, rendering the prices of Pakistani products uncompetitive in the global market.
- **Export product diversification**: Export products could not be diversified as committed in the last three policy frameworks.
- **Infrastructure development**: Despite the commitment, the infrastructure remains inadequate and has not enhanced channels of transportation for speedy export growth.
- **Trade Financing**: Trade financing and access to trade financing remain limited due to the scarcity of funds caused by the financial crunch the country is facing.
- **Market access**: Pakistan has limited market access in major markets of the world, such as Europe and Japan.
- **Export promotion**: Due to limited diversification and value addition, export promotion efforts by Pakistan in host countries lack enthusiasm from Pakistani missions abroad.

Conclusion

To support the development of its export sector, the Pakistani government has implemented a range of policies and initiatives. These include the establishment of Export Processing Zones (EPZs) and Special Economic Zones (SEZs), which provide various incentives and facilities to exporters. The government has also implemented several tax incentives and schemes to encourage exports, including duty drawbacks, tax exemptions, and zero-rated sales tax on exports.

However, despite these efforts, Pakistan still faces challenges in the development of its export sector. These challenges include insufficient investment in infrastructure, inadequate access to finance, limited technological capabilities, and a lack of skilled manpower. Additionally, the country faces stiff competition from other low-cost manufacturing countries, and fluctuations in global demand and prices can significantly impact export performance.

Overall, the development of Pakistan's export sector is crucial for the country's economic growth and development. Continued efforts to address the challenges facing the sector, such as investment in infrastructure, workforce training and education, and technology development, will be essential to further expand and diversify Pakistan's export base.

Recommendations

Based on the discussion above, the following is recommended:

1. To improve output quality, a competitive environment may be provided, as competition is the basic impetus to ensure quality. – **Action by MoC**
2. Trade policies should focus on the export of services rather than goods. – **Action by MoC**
3. For value addition and export promotion, industries should focus on market competitiveness. Similarly, coordinated efforts by the industry, M/o Commerce, MOFA, and the missions abroad are required to promote Pakistani products at international trade shows.
4. To expand Pakistan’s exports, product diversification may be prioritized. – **Action by Chamber of Commerce and Industries in collaboration with MoC**
5. Market access should be enhanced through value addition and ensuring quality standards. – **Action by PQSA and MoC**
6. Tariff regularization and rationalization should be implemented in letter and spirit, as the withdrawal from the government’s commitments to the export sector has caused impediments to export growth. – **Action by MoC and FBR**
7. A Technology Upgradation Fund may be created to support industries in upgrading and shifting towards the latest technology in the textile industry. – **Action by MoC and MoITT**
8. The government must ensure the opening of LCs to avoid being declared in default and to ensure smooth operations in the export sector. – **Action by SBP**
9. The government must fulfill its commitments to avoid a trust deficit between the state and the business community with respect to tax concessions/incentives.
10. Infrastructure, such as roads, ports, and airports, needs to be improved on an urgent basis, considering the financial constraints of the government, to ensure cost-effective transportation of goods.
11. For trade financing, loans with longer repayment durations, lower interest rates, and reduced bilateral requirements can help Pakistani

startups overcome financial constraints. – **Action by Finance Division & SBP**

12. Fixed timelines should be incorporated for targets in policies. – **Action by MoC**
13. Renewable energy resources and solar power plants must be encouraged to ensure an uninterrupted alternate supply to export industries. – **Action by MoP and MoC**
14. National Single Window implementation, coupled with CPEC operationalization, may be enabled to boost exports. – **Action by Pakistan Customs**
15. Youth and skill development. – **Action by MoFE and NAVTTC**

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