

7 March 2025

Lt Gen Sarfraz Ahmad
National Coordinator
SIFC

Dear General Sarfraz,

The Export Facilitation Scheme (EFS): The Lifeline of Pakistan's Export Competitiveness

Introduction

The Export Facilitation Scheme (EFS) has been a cornerstone of Pakistan's value-added export sector, enabling manufacturers to import high-quality raw materials without upfront tax burdens. This strategic advantage allows them to compete globally, drive industrial growth, and earn valuable foreign exchange, thereby reducing Pakistan's current account deficit. Revoking or weakening this scheme would be a catastrophic mistake, which would cripple the export industry, stifle economic progress, and leave Pakistan vulnerable to growing trade imbalances. Instead of dismantling a proven success, the government must focus on enhancing enforcement measures, ensuring compliance, and reinforcing regulatory mechanisms to prevent misuse, while continuing to support legitimate exporters.

Global Precedents: Lessons from Leading Exporters

Pakistan's competitors—Vietnam, Bangladesh, India, Cambodia, Sri Lanka, Kenya, Nigeria, and Ethiopia—have successfully implemented similar facilitation schemes, recognizing the critical role of duty-free imports of raw materials in boosting their export sectors. These countries have strengthened regulatory oversight rather than dismantling effective export policies.

Asian Export Powerhouses

1. Vietnam: The country provides tax-free and duty-free access to imported raw materials under its bonded warehouse and processing trade schemes. This has

turned Vietnam into a textile and apparel powerhouse, with exports reaching over \$44 billion in 2023.

2. Bangladesh: The Back-to-Back Letter of Credit (L/C) system allows garment exporters to import raw materials duty-free. This has fueled Bangladesh's rise as the second-largest textile exporter after China, bringing in over \$50 billion in annual export revenue.
3. India: The Advance Authorization Scheme enables exporters to import inputs without paying duties, boosting competitiveness in textiles, auto parts, and electronics.
4. Cambodia: The Garment, Footwear, and Travel Goods (GFT) Sector Support Scheme allows zero-duty imports of essential inputs, propelling the country's annual textile exports beyond \$10 billion.
5. Sri Lanka: The Temporary Import for Export Processing (TIEP-I) Scheme permits the import of inputs for processing, assembly, or manufacturing of goods for export after value addition. This has been pivotal in enhancing Sri Lanka's textile and apparel exports.

Emerging African Exporters

6. Kenya: As a member of the East African Community (EAC), Kenya benefits from a customs union that allows duty-free trade between member states and a common external tariff on imports from third countries. This arrangement has facilitated the seamless importation of raw materials, bolstering Kenya's manufacturing and export sectors.
7. Nigeria: The Calabar Free Trade Zone (CFTZ) enables companies engaged in manufacturing, trading, and oil and gas activities to benefit from special taxation rules and duty-free imports. This has attracted investment and boosted Nigeria's export capacity.
8. Ethiopia: Through the African Growth and Opportunity Act (AGOA), Ethiopia has been able to export goods to the United States duty-free, provided they meet certain eligibility criteria. This has encouraged the importation of quality raw materials for value-added production aimed at the U.S. market.

Addressing the Concerns of the Spinning Industry

The domestic spinning industry has raised concerns that some value-added exporters are illegally diverting imported yarn into the local market without paying sales tax, making local spinners less competitive. However, this issue is not a failure of the EFS itself but a failure of enforcement by customs authorities and the Federal Board of Revenue (FBR). Scrapping the scheme due to enforcement lapses is akin to demolishing a bridge because of a few loose planks.

Instead of dismantling the EFS, the government must take decisive steps:

- **Strengthen Customs & FBR Oversight:** Implement end-to-end traceability mechanisms using blockchain, digital invoicing, and

mandatory audit trails to ensure every kilogram of imported yarn is accounted for.

- **Enforce Harsh Penalties for Misuse:** Companies found guilty of diverting raw materials into the local market should face severe financial penalties and blacklisting rather than punishing the entire export sector.
- **Encourage Spinners to Export:** The spinning industry should improve its quality and cost structure to compete globally rather than relying on a captive local market. If Pakistani yarn is internationally competitive, it should also be exported, helping Pakistan earn foreign exchange just like value-added textiles do.

We do, however, support the domestic industry's call to restore the zero-rating of GST on its supplies to exporters. The levy of GST in the last budget discouraged exporters to procure indigenous inputs because of the lag time in obtaining sales tax refunds. The restoration of GST zero-rating will create a more level playing field with imported inputs.

The Devastating Consequences of Revoking EFS

If the EFS is revoked, Pakistan's entire value-added export sector will be crippled. The consequences will be severe:

- **Loss of Export Competitiveness:** Pakistani exporters will be forced to procure lower-quality, higher-cost domestic raw materials, making them uncompetitive globally.
- **Declining Foreign Exchange Earnings:** Exporters struggling with expensive inputs will lose orders, shrinking Pakistan's foreign exchange reserves.
- **Mass Unemployment:** The value-added sector, which employs millions of workers, will face closures, leading to large-scale job losses.
- **Higher Current Account Deficit:** With falling exports and stagnant local demand, Pakistan's trade deficit will widen, worsening the economic crisis.
- **The government's target of achieving the \$60 Bn export target in three years is unlikely to be met.**

Conclusion: Strengthen, Don't Abandon the EFS

Pakistan stands at a critical juncture. The Export Facilitation Scheme (EFS) is not just a policy—it is the backbone of our value-added export sector. Instead of revoking it due to enforcement failures, the government must tighten regulatory controls, strengthen customs and FBR oversight, and severely punish violators.

The way forward is clear: protect exporters, enforce compliance, and drive Pakistan towards export-led economic growth. Revoking the EFS is not an option—it is economic suicide. The path to prosperity lies in empowering value-added exporters, ensuring regulatory transparency, and competing with the world's best. The choice is

ours: Do we want to move forward like Vietnam, Bangladesh, and Sri Lanka, or do we want to fall behind?

A nation that strengthens its exporters strengthens its economy. Let us choose progress over regress, innovation over stagnation, and competitiveness over protectionism.

We would be obliged for your support.

Yours sincerely,



Ehsan Malik

cc: Secretary, SIFC