The Pakistan Business Council
FOSTERING ECONOMIC GROWTH
(A Company set up under Section 42 of the Companies Ordinance 1984)

THE PBC'S CONTOURS OF A NATIONAL CHARTER FOR EXPORTS - III

REVISED SEPTEMBER 2022

Executive Summary

The Pakistan Business Council (PBC) published “Contours of a National Charter for Exports” in January 2020, prior to the global onset of the Covid-19 pandemic and its resultant effects on trade. In continuation of the 2020 report, an update of “Contours of a National Charter for Exports” was published in 2021 in order to assist the then members of the National Export Development Board (NEDB) in its objective of achieving sustainable growth in exports amid Covid-19. The 2021 update reiterated the horizontal and vertical measures required to achieve meaningful and sustainable growth in exports. This policy document titled “The PBC’s Contours of a National Charter for Exports – III (Revised September 2022)” is an update with a focus to provide a strategy for boosting exports in general, non-textile exports/services and market diversification. This study will provide a framework for the three tiers of the Strategic Trade Policy Framework (STPF) (2020-25) which are: 18-20 sector-specific councils, an executive committee that evaluates outcomes of the councils, and the NEDB. The key measures identified and the policies recommended in this report are in line with the PBC’s Make-in-Pakistan thrust, supported by three pillars: “Grow More/Better”, “Make More/Better” and “Serve More/Better” and three key objectives: employment creation, promotion of value-added exports and encouraging sensible import substitution.

In the Contours of a National Charter for Exports, PBC has identified the factors affecting Pakistan’s manufacturing and trade as follows:

- The country has deindustrialized prematurely, and it has resultantly lost share of world exports.
- The economy is consumption oriented, reliant on imports even for basic goods.
- Investment in manufacturing lags our South Asian peers by a ratio of 1:2.
- In the last 20 years, whilst Pakistan has lost share of world exports, Bangladesh and Vietnam increased theirs, respectively by multiples of 2.2 and 7.1.

- A large part of Pakistan's exports is of commodities, or of low value-added products, unlike countries like Vietnam. In Pakistan's case FDI plays no meaningful role in exports.

- Smuggling and under-invoicing impacts the formal sector as well as tax revenues. Fiscal policies do not support capital accumulation or consolidation.

- Successive governments have failed to broaden the tax base. Existing tax payers carry a disproportionate burden.

- Pakistan suffers from one of the highest import tariffs in the region.

- The private sector is crowded out by the government from bank credit.

- Energy costs are 40% higher than the region for all except the five core export sectors.

- Intellectual Property issues have denied the country adequate supply of global quality cotton seeds. Supply of cotton is a requisite for the country's principal export sector.

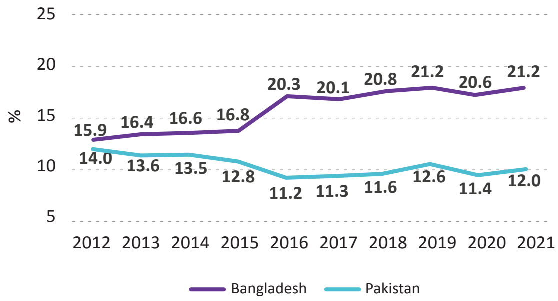
- The export basket is narrow, with Textiles and Cereals accounting for 68.5% of exports in 2021. Export reliance on the USA and Europe exceeds 50% in aggregate and is sharper at 74% for Textiles. Exports to the EU are vulnerable to continuation of the GSP Plus programme.

Background

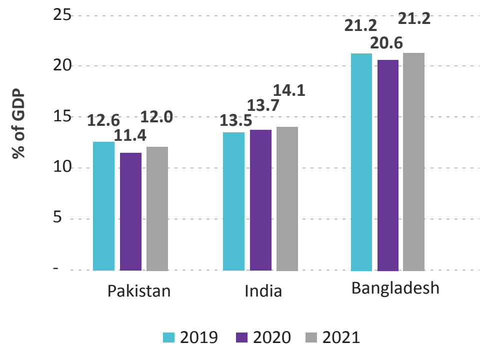
The Country is Prematurely Deindustrializing

Pakistan is deindustrializing prematurely. The role of manufacturing in the economy has been declining and its rate of growth lags far behind our neighbors in South Asia.

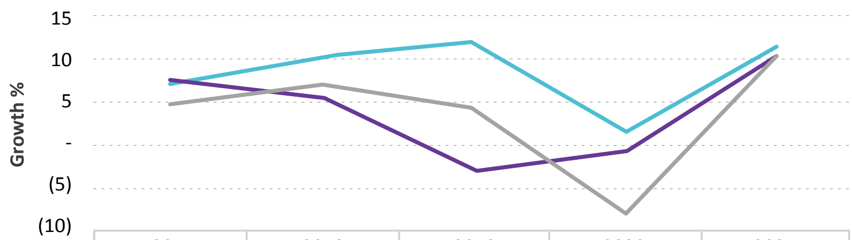
Manufacturing as % of GDP: Pakistan vs Bangladesh



Manufacturing, value added (% of GDP)



Manufacturing, value added (annual % growth)



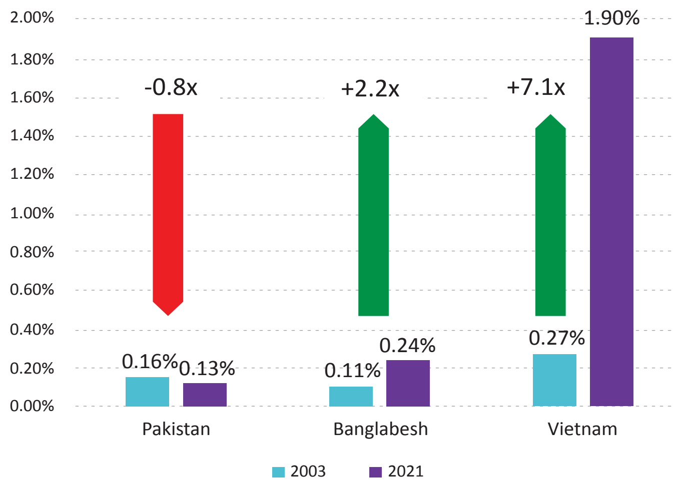
	2017	2018	2019	2020	2021
Bangladesh	7.09	10.45	12.33	1.68	11.59
India	7.53	5.41	(2.91)	(0.60)	10.47
Pakistan	4.87	7.08	4.52	(7.80)	10.49

Bangladesh India Pakistan

Pakistan's Share in World Exports Has Declined

As a result of premature deindustrialization, over the last decade and a half, Pakistan has lost share of world exports, whilst Bangladesh's share doubled and Vietnam's grew seven-fold. Manufactured goods represent a lower percentage of Pakistan's exports than of Bangladesh, primarily because we export commodities and relatively low value-added goods.

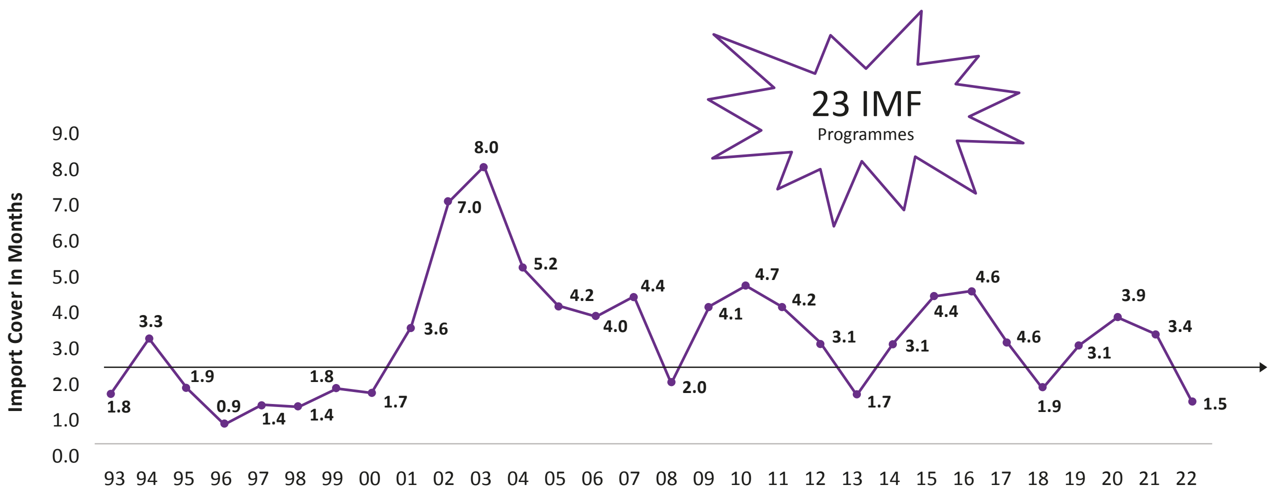
% Share of World Exports



Thwarting the growth of industry are disproportionate burden of taxes on industry; an anti-export and anti-import-substitution bias; until recently, an uncompetitive exchange rate; rampant under-invoicing and mis declaration of imports; misuse of the Afghan transit trade agreement; blatant smuggling; a fiscal policy that relies on imports for revenue and fails to encourage capital formation, scale, investment or consolidation; together with knee-jerk measures to meet tax revenue shortfall. A tariff policy which fails to adequately differentiate between raw materials, intermediate goods and finished products has resulted in rapid growth of imports, often negating the positive impact that trade agreements could bring through cheaper raw materials.As a result, Pakistan is not integrated well into the global value chains. Poorly negotiated trade agreement with China failed to secure competitive tariffs for our exports vs. what China offered to ASEAN and others. High energy and labour costs impeded the competitiveness of relatively low value-added, heavily textile-reliant exports. Shortfall in availability of cotton continues to inflate imports and impacts the potential of value-added exports. Support prices for sugar cane and wheat create uneconomic surpluses, denying industry adequate inputs to add value to exports and promote import substitution. Short-term oriented export policies have not encouraged investment into capacity for value-addition, product sophistication or adaptation to the changing global demands, as for example, the shift to man-made fibers from cotton. About 70% of Pakistan's value-added exports are concentrated on the US and European markets. Energy shortfall, high cost and generally anti-manufacturing policies also discouraged the broadening of exports beyond textiles or of import substitution.

Recurring External Account Crisis and IMF Programmes

The net impact of the aforementioned is a growing trade deficit and recurring cycles of external account crises; resulting in Pakistan knocking on the IMF and other donor's doors for the 23rd time since 1958 and the 13th occasion in the last 30 years.



Source: The World Bank/SBP

Need to Generate Jobs for the Youth

There is a dire need to conduct fundamental reforms to restructure the economy and strengthen domestic industry. Besides, the country needs to annually generate 2-3 million jobs for the youth who reach the age of employment every year and for the 5-6 million currently unemployed or underemployed.

Unemployment Population Rate Across South Asia for the 2020-22 Timeline

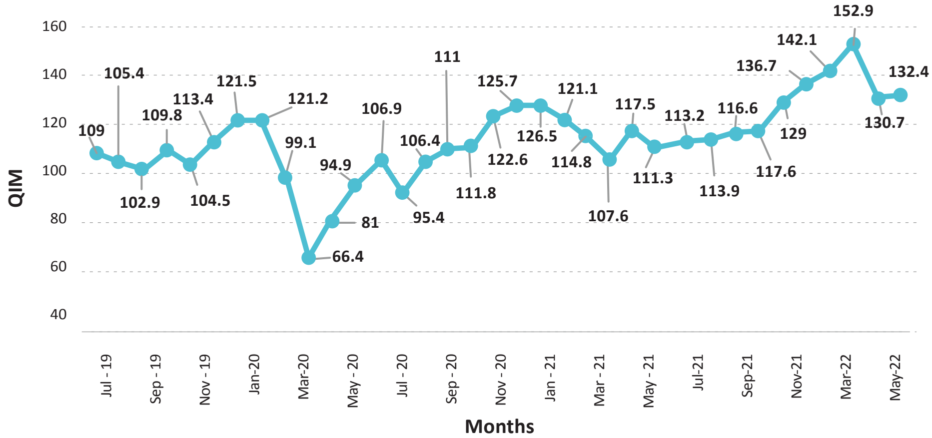
	Unemployment Rate (%)
India	8.0%
Maldives	6.3%
Sri Lanka	5.9%
Banglabesh	5.4%
Bhutan	5.0%
Nepal	4.7%
Pakistan	4.3%

Source: Survey by South Asia Index, based on World Bank data

Manufacturing Growth is Petering Out and is Largely Fueled by Domestic Consumption

Large Scale Manufacturing (LSM) growth has improved in FY22 versus the Covid-affected previous year. However, since its peak in March '22, the monthly Quantum Index of Manufacturing index has been declining, and as of May '22, it is at 132.4.

Monthly Quantum Index of Manufacturing



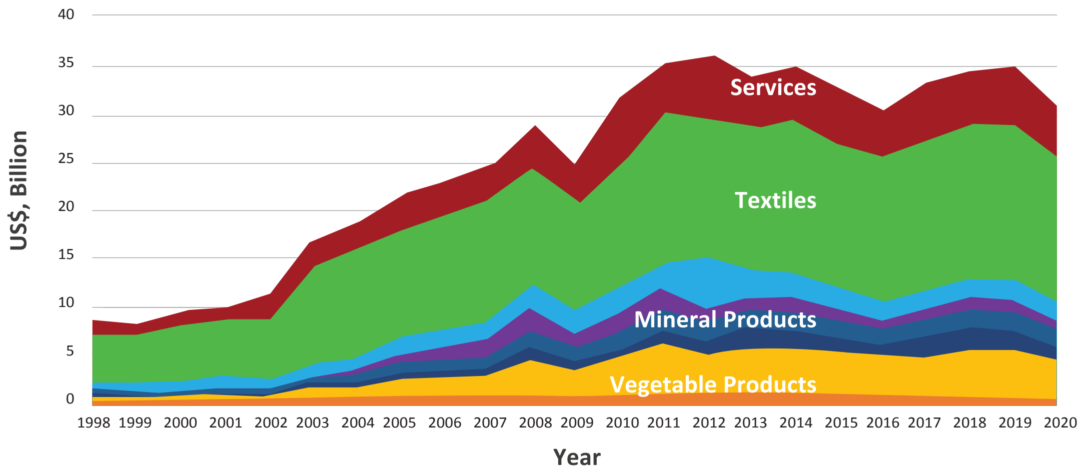
Source: Pakistan Bureau of Statistics

Within LSM change, other than Textiles which is largely export oriented, high growth has come about in domestic oriented sectors such as Furniture (323%) and Other Manufacturing (95.3%).

The Export Basket has not Diversified

Since the January 2020 study, the Covid pandemic has affected global trade. Astute management of the crises by the Pakistan government allowed industry to reopen quicker than Bangladesh and India. Opportunistically, our exports of Textile products in 2021, versus the previous year, grew by 33.5% to $17.5 billion, contributing 66.3% to the overall growth of $6.6 billion in exports. Against the pre-Covid 2019, the $3.8 billion growth in 2021 of Textiles also accounted for 75.3% of the $5.0 billion increase in total exports. Thus, Pakistan's reliance on Textiles has grown, notwithstanding some positive movement on growth of other sectors.

Exports Diversification

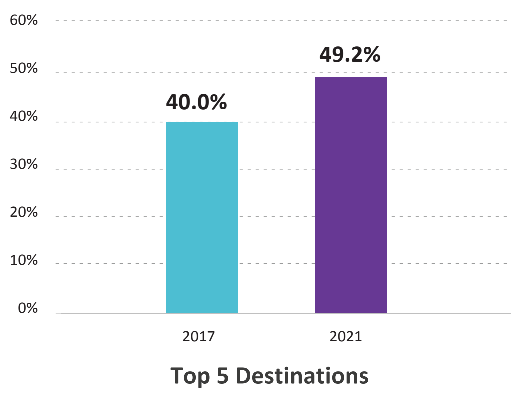


Source: World Bank; OEC

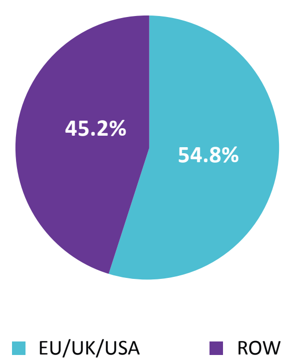
Destination Concentration has Grown

To the five largest export destinations (USA, China, UK, Germany and Netherlands), Pakistan exported 40.0% of its total exports in 2017. This reliance grew to 49.2% in 2021. Exports, thus have become more concentrated in their destination rather than diversifying.

Destination Reliance Growing



55% Reliant on EU/UK/USA (2021)



Source: ITC, Trade Map

Global trade is dynamic in nature. All nations try to promote their exports by offering competing incentives and export regimes, whilst large importers, such as the US and UK, increasingly try to take control and promote their local industry. The PBC is aware of extrapolations estimating Pakistan's export potential at between $50-100Bn in five years, i.e., between 2 to 4 times the current level. Whilst serving to open minds, these projections need to be viewed with caution as they are largely premised on mathematical models which assume a combination of assumptions, foremost amongst which are that world demand will continue to grow in line with past trends (a risky assumption as the world heads into a recession) and that Pakistan can preserve and build on its market share, notwithstanding measures by competing nations like Bangladesh, Vietnam, Cambodia, Laos and Ethiopia. The more ambitious estimates assume that Pakistan can build capabilities to become competitive in sectors it is currently absent from, some of which entail heavy investment, often in energy intensive and import reliant industries, generating relatively few jobs. Examples of such sectors are: naphtha cracker and heavy machinery. Others, like auto parts are contingent on domestic scale and the agreement, hitherto denied, by foreign principals to use Pakistan as an export base.

Whilst most of the current narrative on exports focuses on goods, export of services offers a significant potential to become the second largest foreign exchange earning sector after textiles. At the very minimum, export of services should be offered parity of incentives and facilities with export of goods. This includes export rebates, concessional lending for equipment and working capital and a fiscal regime especially in provincial sales taxes.

Pakistan's provinces and their Sales Tax on Services (including Services Exports)[1] as of July 02, 2022

Province	Sales Tax on Services (including exports)	Services Exports Exempted from Sales Tax
Punjab	16%	All services exports but under certain limitations and conditions
Sindh	3% (Software or IT based system development Consultants; Services provided or rendered by Call Centers)	Telecommunication services; Accounting and Auditor's services
Khyber Pakhtunkhwa	15%	None
Baluchistan	15%	None

[1] Sales Tax on exports (if not exempted) is the Sales Tax applicable on services which varies according to provinces. All provinces charge 19.5% sales tax on Telecommunication services (98.12) including Islamabad Capital Territory which enhanced from 16% to 19.5% probably to align it with the sales tax levied on such services by provinces.

Islamabad Capital Territory	5% (Software or IT based system development consultants) (after amended position before it was 16%)	IT and IT enabled services (not chargeable after amended position before it was 5%)

Source: Federal & Provincial Finance Acts, PwC 2022. https://www.pwc.com.pk/en/assets/document/AFFs%20Memorandum%20on%20Federal%20and%20Provincial%20Finance%20Acts%202022.pdf
For Punjab: Punjab Revenue Authority (PRA) (2020); For Sindh: Sindh Revenue Board (SBR) (2020); Khyber Pakhtunkhwa Revenue Authority (KPRA) (2020); Baluchistan Revenue Authority (BRA) (2019); Federal Board of Revenue (FBR) (2020).

Without getting into a debate on the size of Pakistan's export potential, it suffices to conclude that from the weak and declining share today, the horizontal measures outlined below to promote a meaningful increase do not vary significantly in relation to the potential over a relatively short, five-year time frame. The vertical measures suggested address the gaps and opportunities specific to sectors, and which require further evaluation, which can be supplemented to the policy framework. Therefore, the focus of this paper is on the "how" of the policy framework, rather than the "what" of the size of the export potential. The intent is to continue engagement and dialogue with key stakeholders, including members of the National Export Development Board for a new policy framework. A "do-nothing-new" and "business as usual" will not move the needle substantially on exports. A step-change will require significant change in the export policy and foremost a change in attitude to business. The decision to have the Prime Minister lead the export thrust is in line with PBC's recommendation.

Horizontal Measures Applicable Generally Across Sectors

01- Long Term Policy, Owned and Monitored by the Prime Minister to Give Exports the Consistent Priority that it Deserves

Recommendation	Progress
A long-term policy, owned and regularly monitored by the PM, is required to generate investment, scale, competitiveness, product sophistication and range/market diversification of exports. There is evidence that a PM-led oversight on exports has benefited Bangladesh.	Establishment of the National Export Development Board (NEDB), chaired by the Prime Minister, which most importantly includes all the key ministers / ministries relevant to exports, can potentially align policies, address conflicts, oversee their implementation and resolve difficulties experienced by exporters. NEDB needs to come alive and proactively address the evolving patterns of global trade. It must also set ambitious but achievable targets to measure its success.
Long term policies, focusing less on control and more on empowerment, need to facilitate planning and to encourage investments leading to scale and improved competitiveness. Even the traditional export sectors are running out of capacity and there is a need to diversify and develop capabilities to address changing global demand patterns. An example is the shift from 100% cotton to man-made fibres. A 5-year National Charter for Exports, launched and regularly reviewed by the Prime Minister with frequent interaction with exporters will give exports the importance and focus that it deserves.	In the absence of an industrial policy with clear sectoral priorities, the Strategic Trade Policy Framework (STPF), could provide a way forward. STPF needs to explicitly offer horizontal and vertical measures to support industry. Also, approval and implementation of the long-awaited Textiles Policy, comprising of the vertical measures specific to this most important export sector is vital. Policies need to be long term and be applied consistently to provide Pakistani suppliers and their foreign customers the confidence to rely on Pakistan as a dependable supply source.
The export policies and the bureaucrats implementing them need to treat exporters with respect and with a generous mind-set, giving the benefit of doubt in the interest of creating a positive and empowering culture. The current policies are "control" motivated, whereas the need is of "empowerment". A regulatory guillotine needs to be applied to reduce the interface between exporters and regulators.	Two important initiatives undertaken by the government to simplify and digitize processes will prove critical to supporting exports. The Pakistan Single Window (PSW) integrates work of 70 government authorities, creates transparency, cuts out duplication and speeds up consignments. Additionally, it expedites the process of automating bank credits for rebates.

Recommendation	Progress
	The Pakistan Regulatory Modernization Initiative (PRMI) modelled on the World Bank's Regulatory Guillotine programme, simplifies and automates the regulatory framework. It offers the promise of addressing bureaucratic overload on the formal sector. PBC has cooperated with PSW by offering its nominee on the board. PBC is also the highest contributor to proposals for simplification under PRMI.

02- Quantum Change from Small and Retrospective to Significant, Prospective and Targeted Investment to Drive Export Growth.

There are no focused plans/actions to address specific export potential sectors. With more than 70% of export reliance on traditional products and with Textiles comprising 61% of exports, of which in turn, 74% are destined for the European and American markets, Pakistan needs to invest heavily in diversifying both products and destinations. The operators in the non-core sectors are generally small and do not have the means to develop exports. Moreover, the current 10% retention allowance for non-core sectors is inadequate in size to fund such development. Instead, a leap of faith is required on the part of the government to set aside a substantial amount for up-front investment from the Export Development Fund (EDF) for non-core and new markets. This can be supplemented by exporters from their own 10% retention allowance to build markets. Appropriate checks and balances would need to be instituted to ensure that value is received for the government's investment from the EDF.

If Pakistan is to meaningfully grow its exports, especially in the non-core sectors, and in the non-traditional markets, it will need to invest upfront rather than just rely on the exporters 10% export retention allowance to do this. Fortunately, the government has recently decided to release a substantial part of the accumulated balance of the Export Development Fund (EDF) and allow it to use future contributions by exporters for the purpose that it was always intended. A substantial part of the EDF resources must be dedicated to opening up non-traditional markets for all sectors and traditional markets for non-core sectors. Five major non-traditional export sectors with potential that could be developed with the help of EDF are: pharmaceuticals, horticulture, meat, fisheries, light engineering products, tractors/farm implements.

Other than mineral resource rich countries, countries that grew their exports did so by

Recommendation	Progress
SMEs lack actionable market intelligence to address opportunities. Whilst Pakistan's T&I Counsellors can regularly update information into a central database (which should be established by TDAP), the EDF fund should be utilized to supplement and enrich the information through reliable third-party sources. Exhibitions are an important tool to showcase export potential. Professionally organized annual trade exhibitions such as HEMTEX provide a model. However, given the limited resources, even when augmented by EDF a more focused exhibition strategy is required to be developed. Prima-facie, country exhibitions could be the way forward in African and Central Asian countries as multi-sectoral representation would provide the scale required for professional execution. Trade associations should actively promote dissemination of information from the database. Not enough attention has been given to Non-Tariff Barriers in export destinations. Individual exporters lack the resources to address these but the EDF could be deployed to identify and then with the help of economic diplomacy address this constraint.	broadening the export basket and widening their reach. Export diversification into Africa and Central Asia will necessitate credit risk mitigation to encourage existing exporters reliant on and comfortable with dealing with western markets to diversify. The EXIM Bank needs to be funded to enable it to offer credit insurance.

03- Make Exports More Competitive by Removing all Incidence of Import Duty and Taxes, No Matter Where Incurred in the Supply Chain. The Final Exporter should be able to Receive a Refund Based on Standard Costs Updated Periodically.

Recommendation	Progress
As a matter of principle, all import levies and domestic transaction costs, irrespective of where they are incurred in the supply chain leading up to the point of export should be refunded to the final exporter, allowing maximum price competitiveness. Large exporters are able to import into bond and thus avoid paying and reclaiming import duty. Other organized businesses are able to use the Export Facilitation Schemes (EFS). SMEs however lack the sophistication to operate these schemes, hence their output suffers from a cost disadvantage. An imputed duty and tax refund mechanism based on standard cost for such exporters is used in India and can be replicated	The new Export Facilitation Scheme (EFS) which is due to replace all other schemes for exporters in 2023 still suffers from ambiguity and clarifications and amendments are required for smooth implementation. The PBC is actively engaging with the FBR to remove the ambiguities in the scheme through amendments / clarifications
Secondly, where the final exporter is not the original importer and where the supply chain is complex and long, involving multiple players from the start to the final point of export, a system is required to compute and refund import duty and unadjusted transaction taxes (GST etc.) up to the point of export to the final exporter. As an alternative to existing rebate schemes, design a standardized "Rs./unit" export rebate system which can be updated periodically to reflect changes	To support the integration of SMEs into the export value-chain in which larger businesses are direct exporters, methods of improving their price competitiveness by eliminating taxes need to be developed. This will save time and documentation requirements and promote SMEs inclusion in the supply chains.

Recommendation	Progress
Additional incentives should be considered for manufacturers not presently exporting more than 5% of their output to double this within a maximum of two years. This could be in the shape of half the fixed tax rate normally applicable to exports and reduced energy rates proportional to capacity utilized for exports. It would enable manufacturers presently selling most of their output in the domestic market to reconfigure their supply chains and redesign their products to compete globally. The normal export regime can apply after two years or when a 10% export threshold is achieved. Also, the restriction that presently applies to offset the input sales tax for units that export less than 50% capacity should be revised.	
The combination of the above will liberate exports from all Pakistan import and transaction taxes and make them more competitive. The sectors that would be the main beneficiaries would be the non-traditional sectors due to relatively small size and lack of sophistication of the operators.	

04- A New Strategy is Required to Promote Export of Branded Goods.

Strong brands command premium prices. Products such as surgical goods, cutlery and leather are exported in basic/unfinished and unbranded form, depriving full export value potential. Even in many textile items, Pakistan features between 80th – 90th in terms of $/unit earned among world exporters.	The State Bank of Pakistan, with the approval of the government has significantly liberalized the regime governing investment abroad by exporters.

Recommendation	Progress
Acquisition of Overseas Brands Presently, exporters are allowed to retain and spend 10% of export proceeds for marketing. However, they are barred from investing part of these proceeds in acquiring existing brands. Since the immediate impact on the country's foreign exchange reserves is neutral (and the longer-term impact, more favorable), exporters should be allowed to utilize all or part of the 10% retention to acquire brands without ECC permission. In time, when the country's foreign exchange reserves improve, exporters who are able to make a case for buying brands with outlays beyond their 10% retention allowance, may also be considered on the merits of their feasibilities.	Exporters can now utilize up to the average of the previous three years export retention allowance to acquire or establish overseas subsidiaries and representative offices. This is a timely step as, post-Covid, there are opportunities for Pakistani exporters to integrate into the global value chains and get closer to their customers and consumers.
Marketing and Selling of Pakistani Brands Abroad Marketing and selling branded goods costs more than selling simple commodities. The present 10% export retention allowance does not adequately cover the cost of establishing a brand, registering the products with supermarket / department chains, paying for shelf rentals etc. These costs are high in the early years of market entry. It is recommended that such costs incurred abroad may be allowed at actuals, subject to audit or other verification. Supermarket / department chains require just-in-time delivery. It is not possible to achieve this without warehousing abroad. Branded goods exporters should be permitted to hold stock abroad and remit on the basis of sales. In the absence of this facility, exporters have to rely upon intermediaries such as distributors, which reduces their margin and the amount that can be remitted to Pakistan. Moreover, in the event of a dispute, fresh	To promote selected Pakistani brands abroad, EDF should consider supplementing upfront market development expenditure on gradual pay-back terms.

Recommendation	Progress
registration has to be negotiated with supermarket chains. This reduces the leverage that exporters have over their supply chain abroad. Whilst larger exporters can afford to rent their own warehouses, SMEs may benefit from combined storage facilities if these can be established with EDF assistance. Slow recoveries and bad debts are risks that are inherent to developing and marketing brands. Despite good risk management processes, branded goods companies, even in the domestic market have to write off and provide for debts. These risks are higher in international markets. Changes should be made to allow more time than currently permitted to recover debts. Similarly, up to 1% of annual brand exports be allowed for bad debts.	
State Sponsored National Brand Building Programme Apart from some exceptions, Pakistan is not perceived as a reliable supplier of quality products, more as a provider of “cheap” goods. Both, the reality and the perception need to be addressed. A product focused Made-in-Pakistan brand campaign, backed by noticeable improvement in quality and reliability, would help. Pakistan could learn valuable lessons from the Turkish "TURQUALITY" Programme through which the Turkish government has been funding the development of 10 worldwide Turkish brands. A sector-by-sector approach is recommended.	
Safeguards Stakeholders and regulators need to be engaged in developing safeguards to prevent the misuse of the policy to promote exports of branded goods.	

05- Warehousing abroad

Recommendation	Progress
Pakistan exporters are required to realize export proceeds within a short time period. This does not permit the warehousing of products for subsequent sale on a "just in time" basis, which is increasingly demanded by foreign buyers unwilling to carry inventory on their own books. Large exporters should be permitted to warehouse inventory abroad. This is all the more essential to serve online sales portals, such as Amazon, which will not allow access to foreign suppliers unless they are shipping promptly from a domestic point. This would entail longer time period for remittance of export proceeds. Collaborative warehousing can be facilitated in larger markets to especially allow SME exporters to synergize their storage costs. EDF funds can be deployed to establish such facilities.	Whilst Amazon has recently allowed goods to be dispatched from Pakistan, given the demanding cost and lead time considerations, this is likely to become a niche and relatively small source of exports. Quantum increase in exports using global platforms will necessitate warehousing in the home markets i.e., USA, Canada, UK and Europe. Also, supermarket chains will continue to work on a "just-in-time" supply model from local warehouses.

06- Plug and Play Industrial Zones

Industrial areas around the big cities are choked, land is expensive and infrastructure is lacking. Manufacturing and exports can be jump started by providing "plug & play" facilities in industrial zones. SEZs are an ideal way to do so. "Ready-to-Go" facilities will also attract relocation of manufacturing from China which is otherwise moving to Cambodia, Laos, Vietnam, Indonesia and Ethiopia. Please also refer to PBC's Recommended Framework for SEZs	Whilst recently there is some acceleration in the process to establish SEZs, none are operational as of now, denying investors affordable land with adequate utilities and labour and logistics connectivity. The reintroduction of minimum tax on turnover during tax holiday periods for SEZ enterprises needs to be reversed.

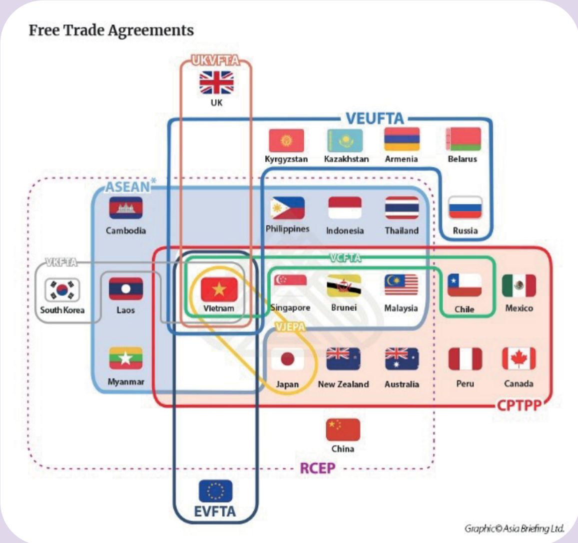
07- Energy at Competitive Cost

Recommendation	Progress
The five core export sectors are offered energy at reduced rate. This promise has not been fully honored for all exporters. In principle, all exports should be entitled to energy at a cost which is globally competitive. Where industries produce a mix of exported and domestically marketed products, a rebate should be offered on the quantity exported to render the input cost of energy to a globally competitive level.	Those outside the five core export sectors suffer electricity tariffs about 40% higher than comparable regional countries. This not only thwarts growth of exports from non-core sectors, it also undermines import substitution in sectors in which energy is a larger cost input.

08- Market Access

Focus economic diplomacy to negotiate market access, at a minimum to achieve parity with key global sourcing competitor countries. One stark difference in access to global markets is Vietnam's trade agreements. It is a member of ASEAN, benefits from lower tariffs into China, now has trade agreements with the EU and UK, is member of CPTPP and the new RCEP. Besides, it also has access to Russia and Eastern Europe through another FTA. Bangladesh too enjoys low or no tariffs by virtue of its LDC status, though that may not last. China, our main FTA partner has allowed Bangladesh duty free access to 97% of items without an FTA. Our trade arrangements are nowhere comparable to those of Vietnam or even Bangladesh.	At least for access to China, we should try to achieve parity with Bangladesh which enjoys duty-free access for 97% of HS lines without any FTA. Exports from Pakistan also suffer from higher duties into Japan, Canada and Australia, relative to Bangladesh. It is likely that Bangladesh will mount a concerted effort for some continuation of its LDC access post 2027. Therefore, our diplomatic advocacy needs to be stepped up to seek parity. Besides Bangladesh, the model of market access to emulate is Vietnam which, besides belonging to ASEAN, has trade agreements with China, Japan, Korea, Eurasia, the EU, UK and now also access to RCEP which includes Australia and New Zealand. Pakistan has no mega/regional trade agreements.

Recommendation	Progress



Pakistan does not have an agreement with the ASEAN/RCEP block to address the fast-growing Asian economies. Study feasibility. There are risks and opportunities, especially in trade with Thailand.

Negotiating and retaining market access are the combined responsibilities of the Ministries of Commerce and Foreign Affairs. This may selectively require retention of professional lobbyists. EDF resources should be considered to fund this activity.

Whilst prescribed goods from Pakistan currently are allowed entry into the EU duty free under the GSP+ facility, EU's GSP+ is under review and it is vital that Pakistan position's itself to retain duty free access.

Please see PBC's report on Trade with the European Union.

Without taking the views of business into consideration, the Government has recently signed a PTA with Turkey. In the past Turkey has denied access to our textiles (including opposing EU GSP+ for Pakistan) whilst seeking entry into our auto, chemicals sectors.

The current arrangement expires in 2023. Continuity of the EU GSP+ is critical for Pakistan. This will require pan-ministerial / provincial effort and considerable diplomacy.

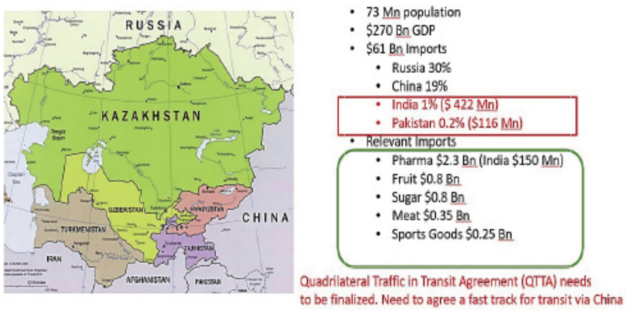
	2020 $Bn	% Growth since 2013	% of Pak Exports of these items
Total Exports	6.23	29%	28%
Apparel	2.46	72%	43%
Home	1.58	57%	37%
Leather	0.38	-20%	54%
Cotton Yarn	0.07	-37%	8%
Footwear	0.07	10%	61%
Total GSP+	6.17	28%	30%

Recommendation	Progress
Textiles have parity access in the USA with countries like Bangladesh. Moreover, Pakistan needs to consider ongoing lobbying in Washington to obtain preferential access into the USA.	Trade relations with the USA, which is Pakistan's largest single export destination also requires additional focus of diplomacy, especially in light of regional developments, following the US pullout from Afghanistan and the shift of US focus to Indo-Pacific.
The US GSP is currently awaiting renewal. • Pakistan was amongst 119 countries that was entitled to duty-free access for a range of products. • As of 2021, Pakistan is the ninth-largest beneficiary of the US GSP scheme. • Approximately 6% of the US's total imports from Pakistan, valued at \$315.9 million, were imported under the GSP program. • Even though \$4.6 billion goods were eligible for duty-free access into the US in 2021, imports from Pakistan were given zero duty preference on \$315.9 million worth of goods, leading to a utilization rate of 86.4%. • Surprisingly, exporters also failed to claim \$4 Bn of duty advantage that they were eligible for. When revived, it is unlikely that the items eligible for duty free access would be expanded.	
In Africa, Pakistan has just one PTA with Mauritius vs. India's trade agreements with 19 countries. A concerted effort needs to be made to study the feasibility of more trade agreements, especially with trade blocs and countries in Africa and Central Asia. Pakistan has 9 in-country Trade and Investment Counsellors in Africa vs. 35 of India.	Trade with Central Asia will remain contingent upon peace in Afghanistan. Access through Afghanistan poses a challenge. Pakistan must secure reliable and safe transit facilities with the new government. Engage the Afghan government for a safe corridor for Pakistan trucks. Negotiate improved seasonal access via China. Explore alternative via Iran and Azerbaijan. Also, like Africa, the poor state of development of the banking system poses credit and settlement risks.

Recommendation

Progress

Land Locked Central Asian Republics



The country needs to evaluate ways of obtaining better market access in Central Asia.

In line with more trade agreements, we need to step up our in-country presence.

Pakistan does not enjoy parity with Bangladesh in tariffs on exports to China. On the other hand, Bangladesh enjoys unilateral tariff-free access in 97% of HS lines to China. Pakistan despite an FTA with China, Pakistan only enjoys duty-free access in 35% of HS lines with another 40% by 2030).

Our revised FTA with China presently limits this concession to 45% of HS lines and even by 2030 will get us up to 75% only.

Following the renegotiation of the FTA with China, the protocol stipulates that the proportion of tariff lines with zero-tariff products between China and Pakistan will gradually increase from 35% to 75% of all HS codes over a period of 10 years. In addition, both parties will implement a 20% partial tariff reduction on other products that account for 5% of dutiable items within the other country's tariff lists. So far China has agreed to eliminate tariffs on 313 major export items from Pakistan – effective immediately. This includes frozen meat and seafood, dried fruits, chemicals, plastics, oil seeds, construction material, equipment and machinery, leather, auto parts, home appliances and machinery, among others.

In Phase II of the protocol, tariffs on many textile goods will be brought down to zero. With Pakistan's low labour cost and competitive energy tariffs for exports, western textile manufacturers should find it feasible to locate plants in Pakistan to service not just the large Chinese market, but also other markets in the region. It is important to remember that China is itself in the process of phasing out the labor-intensive apparel sector.

09- SME Integration, including Export Houses

Recommendation	Progress
Scale is a driver of cost competitiveness. Scale can be achieved through mergers and expansion of existing units as also through stronger integration of larger businesses with SMEs. Transaction costs are an inhibiting factor. Further, the inability to recover duties and taxes incurred by multiple players in a supply chain up to the final point of export is also a constraint. Banks are reluctant to lend to SMEs due to higher risk. SMEs on the other hand are unable to take risks associated with credit to foreign buyers. A vendor financing and export house model would promote greater integration of the SMEs into the export chain. Japan and Korea developed their exports through the export house model with companies like Mitsubishi and Mitsui offering a model and learning opportunity.	Mitsubishi and Mitsui should be approached to learn from their export house model.

10- Sme Funding and Credit Guarantee through DFIs

Commercial banks are by nature risk averse as their primary responsibility is to safeguard their shareholder's interest. Development is not a shareholder business; it is a stakeholder business with the state having a major interest in managing its trade balance. Developing export markets involves risks as most foreign buyers will not provide letters of credit, especially to SMEs who lack negotiation power. An Export Development and Credit Guarantee Bank owned by the government can take on the task of helping to fund SMEs and to build non-traditional and riskier markets in Africa, Latin America, and Central Asia.	Government guaranteed credit to SMEs should support development of this sector. Widening the geographical focus of exports perforce entails additional risk vs. established and dominant markets of the USA and Europe. Larger exporters are less inclined to take risks with customers in Africa and Central Asia. Reducing risk will enable large exporters presently focusing on the West to consider selling to Africa and Central Asia Export credit guarantees will facilitate the broadening of export reach. Proper Development Financial Institutions with an export guarantee role will assist in the process.

Recommendation	Progress
The past failure of DFI's like the IDBP, PICIC, NDFC, BEL etc., is in itself not a sufficient reason to avoid setting up a well-resourced and governed institution. Instead, learnings should be taken from the past mistakes.	Export credit insurance be offered through the EXIM Bank (which needs to be funded and fully activated) or through other means. The possibility of large business houses in Pakistan to establish export warehouses in the major markets in Africa needs to be probed. SBP to allow relaxed terms for reimbursement of export proceeds.

11- Differentiated FDI Policy for Exports

A quarter of Vietnam's exports (25%) are generated by Samsung alone whilst many other Japanese, Chinese, South Korean, Taiwanese and US investors account for a sizeable percentage of its exports.

Pakistan's FDI is substantially of market seeking nature, which is here to address the large domestic market, growing middle class, rapid urbanization and youth bulge, willing to change consumption habits from loose to packaged and branded products. This type of FDI is short payback and highly profitable. It also relies mainly on imported raw materials, benefiting from protection through tariffs.

Pakistan has not attracted foreign investment into exports, even in the agriculture sector where there could be potential. Instead, a

Much of recent concern on dwindling FDI centers on size rather than the purpose of FDI. Even on size, the focus is on gross inward investment rather than on net inflow or outflow after profit and other types of repatriation are taken account of. We still do not have exports as a priority in our investment policies, nor any special incentives to attract or encourage existing foreign investors to export. With growing reliance on import of food, we also do not have food security as a consideration for attracting FDI.

Much is said about the potential of attracting labour intensive investment from China into export-oriented sectors. However, neither affordable land, nor utilities are available yet. For a fuller account of the reasons why Chinese (and other) private sector investors are slow to invest in Pakistan, please refer to PBC's report: FDI Attraction in a Transforming World: A Perspective on Pakistan.

Recommendation	Progress

liberal FDI policy has attracted many FMCGs which reap the demographic dividend of a rising middle class but do not export or create import substitution. A differentiated FDI policy which factors impact on the external account is recommended for fresh foreign investment. This will generate higher and more value-added exports through infusion of technology.

MNCs are unable to feed their global supply chain from Pakistan because there are centers such as Egypt in the Middle East and Vietnam in the Far East that outcompete on cost. As a result, there are hardly any exports from Pakistan. Existing foreign companies operating in Pakistan should be encouraged to export into their global value chains. This will also create wider reach through the foreign investor's marketing network.

12- Prioritize Non-energy Intensive Sectors

Pakistan will continue to rely heavily on imported fuel for its energy. Moreover, the cost of energy will remain high until distribution losses and theft are curbed. On the other hand, its vast agriculture, horticulture and livestock sectors, have potential to increase yield and cut losses; its unexploited mineral wealth and a large population of youth which can be upskilled, potentially offer a competitive edge.

With 40% higher utility costs for industry vs. regional players, the focus must remain on low energy sectors such as services, light engineering, agriculture etc.

Recommendation	Progress

Farm productivity: substantial room to improve (2020)

Output Ton/Jectare	Pakistan	Best in the World	Pakistan as % of Best
Wheat	2.8	9.9 (New Zealand)	28%
Cotton	1.7	9.1 (China)	19%
Sugar Cane	69.5	123.8 (Peru)	56%
Maize	6.0	29.6 (Jordan)	20%
Rice	2.5	10.0 (Australia)	25%

Source: FAO-UN

13- Exports to be Integral Part of an Industrial Policy

Exports need to be an integral part of an industrial policy, which promotes manufacturing, including import substitution. A stand-alone export policy without strong linkages with manufacturing and imports is not sustainable over the long run. A National Industrial Policy would perforce address all elements of manufacturing, including exports and import substitution.

Please refer to PBC's report: Contours of a New Industrial Policy

A well thought out industrial policy will bring clarity to priorities as well as the horizontal and vertical measures necessary to support both sustainable exports and imports.

14- SME Training

Many SMEs are oblivious of global opportunities. Whilst an export house is one solution, educating SMEs in global trade procedures would be another way to widen the export eco-system.

TDAP needs a formal sectoral programme to educate SMEs about the potential of exports and how to realize it. EDF can consider funding this.

15- Competitive Labour Laws

Recommendation	Progress
Labour laws need to be compliant with global norms. However, a comparison of laws in the region may reveal scope for improving competitiveness. One aspect of this is minimum wages. In China, India and Bangladesh these are set in line with the state of development of a region. In Pakistan, after the 18th amendment, provinces are free to set their own minimum wage. However, they end up setting the same wage. Secondly no differentiation is made within the province in relation to the stage of development. This gives no incentive to industries that operate in the formal sector, especially those that export, to move out of large cities. The minimum wages in the less developed areas are not enforced and the beneficiary is the informal sector, not labour. As it is not possible to reduce wages in less developed areas, provinces may be encouraged to subsidize industry to locate (or relocate) there.	With significant difference in cost of living in urban and rural areas, a conceptual case can be justified for differentiation in minimum wages. However, as that is not politically feasible, provinces may consider providing wage subsidies, as many do in developed countries, to incentivize industry to locate in rural/less developed areas. This would also reduce the burden on infrastructure due to rapid urbanization in the country. With the devaluation of the Pakistan Rupee, minimum wage at Rs. 17,500 per month had become regionally competitive. However, at Rs. Rs. 20,000 to Rs. 25,000 per month, the more labor-intensive export sectors will suffer from a disparity with the region. Also, it will encourage mechanization of processes, which would have negative consequences on jobs. On a positive note, industry will be motivated to reduce reliance on unskilled labour by adding more value (and skill orientation) into their global offerings.

16- Duty Free Plant and Machinery

Investment in plant and machinery for export industries to be exempt from duties and sales tax.	Given the need to reverse the premature deindustrialization of Pakistan, all machinery not made locally should be importable free of duty and sales tax. If this cannot be done, hybrid solutions should be developed for those manufacturing industries that supply inputs to exporters.

17- Do Not Abandon Traditional Sectors Whilst Searching for Pastures New

Recommendation

Existing export markets need to be retained and developed further. The EU GSP+ will phase out by December 2023. Pakistan needs to lobby hard for its continuation. Likewise, the previous US president's stated ambition to grow trade 10-20 times with Pakistan has not been followed upon and no significant initiative has been taken to gain preferential access. Again, Pakistan needs to seriously consider retaining a lobbyist in Washington.

Progress

Incentives for broadening the export basket should not be at the expense of supporting existing export earners. Textiles will, in the near future, remain the main export sector and efforts to grow it must continue. To provide some context, Textiles, the major export sector has performed as follows:

Textile Exports US$ Bn

	2019	2020	2021	2019-21 Growth %
World Exports	23.82	22.25	28.88	
Textile Exports	13.70	13.11	17.51	28%
% of Total	58%	59%	61%	

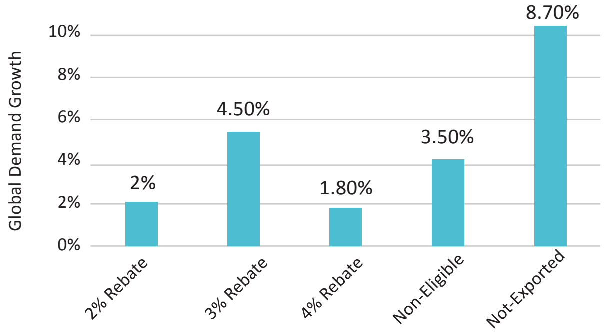
However, there are grounds for exploring better utilization and targeting of rebates. Studies show poor uptake by SMEs in general to rebate schemes and low incentives for some potential new export sectors.

It is imperative to simplify further, consolidate where multiple schemes are available for same products, provide online tutorials for SMEs to equip them to avail benefits.

The current rebate schemes are far too complex for SMEs to avail. According to a World Bank estimate, 75% of exporters are unable to avail rebates currently. There is a pro-incumbent bias in incentives which skew towards traditional items, for which global demand is not rising.

Recommendation	Progress

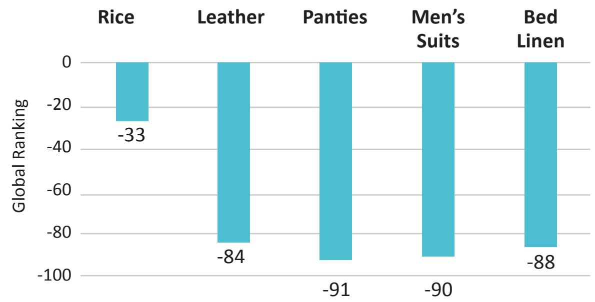
Rebates vs Global Market Growth



Source: World Bank Pakistan Development Update

A large number of exporters lack scale. The average value exported is half that of Bangladesh which has benefited from consolidation. Average value/exporter is $1.4 Million vs. $3.8 Million for Bangladesh. In none of the major export lines do we rank well in unit pricing. Higher exports can be generated from more competitive export pricing and the promotion of employment in the SME sector.

Pakistan's ranking in value/unit



18- A Supportive Fiscal Policy

Recommendation	Progress
The levy of minimum tax based on turnover (albeit at reduced rate at 1.25% of turnover), irrespective of the underlying profit and the premature withdrawal of tax credit on investment in plant & machinery are two major fiscal measures that impede scale and competitiveness of industry in general. Reforms in these two aspects of the fiscal policy will promote investment which in time would lead to exports. In a complex supply chain where exporters rely on supplies from domestic industry, the incidence of minimum taxes impacts the end cost of exports.	The reduction in minimum tax based on turnover from 1.5% to 1.25% is a welcome move. Though direct exporters are not directly benefited by this, those that rely on domestic supplies will indirectly benefit from any reduction in tax on their suppliers. Unfortunately, the income tax credit available on investment in plant and machinery has not been restored. This will deny exporters the benefit of reduced tax burden on their suppliers from the domestic market.
The justification offered by the FBR for the imposition of minimum tax based on turnover and for the withdrawal of tax credit on investment is that some tax payers were understating profit and overstating investment. It is inequitable that those who do not indulge in such practices suffer.	

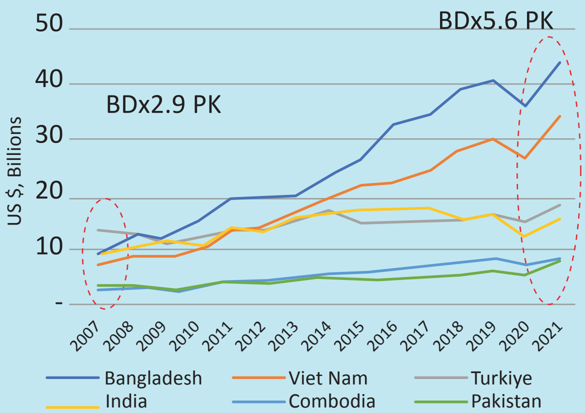
Vertical Measures Specific To Key Sectors

01- Textiles

Recommendation	Progress

The Apparel (value-added sector) exports from Pakistan cover the bottom 20% of the global universe of apparel, leaving 80% of apparel demand unaddressed (this 80% demand is covered by countries such as China, Bangladesh, Viet Nam, Germany, Italy, Türkiye, Spain, India, Netherlands, France, Poland, Belgium, Indonesia Hong Kong, and Cambodia). This is where countries like Vietnam and Bangladesh have moved with speed. Bulk of Pakistan's exports are 100% cotton based, whilst global demand is shifting to man-made fibres, which are also ideal for the emerging technical textiles.

Widening Gap in Garment Exports with Key Sourcing Competitors.



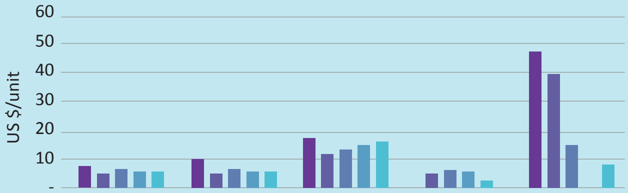
The per unit price commanded by Pakistan apparel exports is between 11-50% of Vietnam's and 20-33% of Bangladesh's. Hence there is significant scope to change the cotton/man-made fibre mix and to go up the value chain.

The State Bank's Temporary Economic Refinance Facility (TERF) resulted in major investment in increasing capacity (and in some cases of upgrading capability to add more value) in the textiles sector. Whilst supplying yarn and fabric to countries like Bangladesh is within the comfort zone of the sector, upgrading to value-added apparel demands skills with potential to fetch higher export earnings. Rebates need to be more smartly targeted than presently to promote the latter. Import tariffs and regimes that are currently limiting the textiles industry from participating in the growing global shift to man-made fibres needs to be addressed. Otherwise, Pakistan will fail to fully benefit from sourcing diversification by US importers threatened by imposition of additional tariffs on imports from China. That said, seed and other deficiencies need to be addressed to reverse the dwindling availability of cotton, an essential input for Textiles.

Exporter's cash flow must not be tied up unnecessarily. Automating rebate credits is a good move and past arrears must similarly, be released.

Regionally Competitive Energy Tariff (RECT) must continue to be made available to exporters in general and to the Textile sector, in particular. All textile exporters are not fully integrated. Many rely on a long and often complex supply chain of domestic input suppliers.

Recommendation	Progress



	Pakistan	Turkey	Cambodia	India	Vietnam
6203	6.58	9.50	15.97	-	49.89
6103	4.91	5.01	12.66	4.63	41.79
6110	5.60	6.62	13.53	6.62	15.00
6105	3.74	7.54	15.24	5.28	-
6109	3.15	6.62	16.09	2.57	7.02

6203 6103 6110 6105 6109

The main onus of this is on the current large players who need to invest in capacity and capability including skills. There is little that the government can do other than providing a long-term policy framework. However, the failure to refund taxes on a timely basis is severely impacting the cash flow of exporters and needs to be addressed urgently.

Equip the National Tariff Board with the right skills and data to ensure evidence-based policies. Gear up its capacity to review impact of time and objectives-based tariff protection. Ensure sunset clauses in future protection.

Denying this extended supply chain of RCET impedes competitiveness of exports. Secondly, until cost and reliability can be addressed, captive power producers, of which many are in the textile sector, must not be forced to switch to the grid.

When there is shortfall in availability of fuel for energy, priority must be given to export industries.

Specialty chemicals, also known as "fine chemicals," account for 20-25% of the chemical market. Specialty chemicals, dyestuffs and emulsions have strong forward linkages with export-oriented Textile, Leather and other industries for producing value-added products. This sector should be given sharp focus as an "Indirect Export Industry" for enhancing the net-export content of textiles.

Pakistan Chemical Manufacturers Association: (PCMA) is currently engaged in negotiation with the Federal Board of Revenue (FBR) on the imposition of sales tax on imports made by export-oriented units in order to provide a level playing field to the chemicals industry specifically to the specialty chemical sector. Currently there is no sales tax on imports and 17% GST while they buy the same material from local industry. (PCMA, 2019 "Transforming Chemical Industry" Issue 1).

Travel Advisories limit the number of foreign buyers travelling to Pakistan. The government can help by advocating a differentiated approach for larger cities where most of the industry is located. Also, it could subsidize the first few year's costs of running Pakistan-based

The tax break provided to export buying houses is a good step. These need to be supplemented by easier issue of visas to foreign buyers & their representatives. Economic diplomacy must continue to focus on obtaining more favorable travel advisories to encourage foreign buyers to

Recommendation	Progress
buying offices for larger buyers. These could potentially be located near major airports to assure further security. In the meantime, it needs a fast visa approval process with an added challenge that many merchandisers / inspectors are Indian and Bangladeshi nationals.	visit. Countries may be encouraged to adopt differentiated advice for travel to safer cities and commercial centers.

02- Pharmaceuticals

For Pakistani pharma companies, drug registration in foreign countries is a major cost. So is establishing a WHO approved manufacturing facility for most companies. Pharmaceutical companies contribute to a Central Research Fund. Companies may be allowed to draw on this fund in relation to their contribution in the previous years to meet the costs of drug registration in foreign markets. Additionally, those meeting a prescribed export performance realization may be given a 1% rebate. Pharma exports amounted to $270 million in FY'2022 as compared to carpet exports which generated $80 million of exports. Besides, pharma has a larger and faster growing global demand than hand-made carpets, which Pakistan exports. Yet pharma is not a priority export sector, whereas carpets is.	The Drug Regulatory Authority of Pakistan (DRAP), which is the industry regulator, must itself accord with global accreditation standards if it is to certify Pakistan produced drugs for sale abroad. The Central Research Fund should be utilized to fund registration costs of drugs abroad. As individual companies may not be able to justify investment in WHO approved facilities, a central contract manufacturing facility may be considered that meets the WHO standard. Exports by Pharmaceutical businesses should be eligible for rebates, especially for sale to Africa and Central Asia. The Pharmaceuticals sector may be accorded the status of core export sector. This will enable it to benefit from lower energy costs.

03- Footwear, Leather, Furniture, Cutlery, Sports Goods, Surgical Instruments

These sectors suffer from design and skill deficiencies which can be addressed through a combination of FDI, technical agreements and training by establishing or improving dedicated	Design improvements must be supplemented by branding to maximize export earnings. Many of these products are exported at relatively low values in semi-finished form and subsequently branded and sold at a premium.

Recommendation	Progress
design centers. Duty refunds etc. are covered in the horizontal policy above. The Turkish "TURQUALITY" programme should be emulated to establish Pakistani brands in these sectors. Turkey launched TURQUALITY to selectively address some of the categories it wanted to promote. Domestic appliances sector was one such. PAKQUALITY programme can be developed along similar lines for various categories.	

04- Dairy, Livestock, Horticulture and Rice

Growth of the packaged dairy industry has been impacted by high taxation, unfair competition from mostly adulterated loose milk and poor milk yield. A level playing field will enable milk-deficient Middle East and China to be served from Pakistan.	The government is to be congratulated for zero rating packaged milk. The improved economics of the packaged dairy business will allow it to gain scale and competitiveness. Genetic intervention to improve milk yield and sharper focus on curbing adulteration will unleash the potential of dairy exports. Stricter implementation of the pasteurization law will also help.
Due to combination of poor breeding, feeding and hygiene standards, Pakistan is unable to fully exploit the potential of meat exports to the Middle East or China. A fresh strategy for livestock exports is required. This should include both frozen & chilled meat. Currently, exports are limited to chilled meat.	The recent breakthrough in exports of meat to Malaysia augurs well for this sector. However, significant focus is required on breeding through disease free quarantine zones, to also enable traceability of breeds. Graduating to Stage 3 of the Foot and Mouth Disease Program will enable export of frozen meat. Electricity at a competitive cost will make it feasible to export frozen meat.
Given the depleting water resources of the country, enhanced focus on fruits and vegetables can maximize yield and revenue per acre and volume of water consumed. This requires an integrated horticulture policy covering all elements of the value-chain including logistics. The export potential would primarily be to the Middle East and China.	The cold chain for meat and horticulture demands investment. This would include concessional funding of packing houses, processing units, cold storages, reefer trucks, etc., for fruits meat,

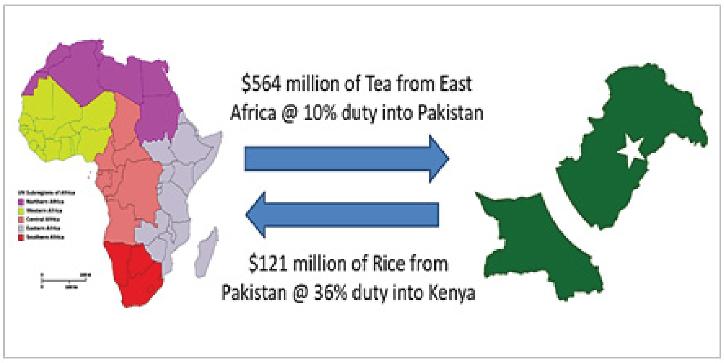
Recommendation	Progress

Rice is Pakistan's second highest export earner. 60% of the country's annual output is exported as Pakistan's staple preference is wheat. Without putting additional burden on the country's depleting water resources, through measures such as land levelling, water-course management and mechanization of sowing and harvesting, output per acre can double, resulting in exports of $5 billion vs. $2 billion currently. The Centre and Provinces need to work together to promote progressive agriculture policies to achieve this export potential.

seafood and vegetables. It would be useful to attract large international players in processed food products such as potatoes, citrus, and tomatoes by securing their Intellectual Property Rights. Introduction of off-season fruits and vegetables will enable exporters to charge a premium. Cold storages for fresh produce at air and seaports will preserve quality.

Improved tariffs for Rice into Kenya in exchange for Tea can be the focus of economic diplomacy.

Unfavorable Tariffs for Pakistan (2021)



With Australia and Japan now accepting hygiene standards of Pakistani mangoes, the scope for exports to other countries and of other fruits has increased. Focus must continue across the entire supply chain to maximize the potential of horticulture exports. Central Asia and Western China offer export prospects but logistics and standards remain a challenge.

Pakistan's success in gaining the Geographical Indicator (GI) tag for Basmati sets it on a strong path to contest India's exclusivity on Basmati in the EU. Pakistani exporters must redouble their effort on branding to gain maximum benefit from this positive development.

05- Services

Recommendation	Progress

Recommendation

Export of all types of services should, at a very minimum, be treated at par with export of goods for incentives to grow. Export of services should be eligible for export rebates like in India where the Services Export from India Scheme (SEIS) supported a long list of services. Rebates on export proceeds will also incentivize software exporters to remit their full earnings.

IT Services Exports 2020

India	Pakistan
$65.3 Bn	$1.3 Bn

Indian IT exports 48 time larger

Exporters of services should also be provided concessional funding for equipment and working capital. Export of services do not receive any concessional funding. Traditional collateral-based bank lending does not encourage bank lending to the services sector which does not rely on physical assets. SBP's Prudential Regulations should be modified to allow banks to lend against the collateral of accounts receivable and work in progress.

As recommended for exporters of goods, all taxes incurred in the execution of export services should be refundable. Surprisingly, Sindh and KPK levy GST of 3% and 15%, respectively, on services provided by the ITES sector to customers in other countries. According to the Federal and Provincial Finance Acts 2022 (PwC), IT enabled services are subject to SST reduced rates as of July 01, 2022 with the restriction that no input tax adjustment will be allowed. Before the relief,

Progress

Services require relatively little energy, low capital investment and are mostly not import-reliant for inputs. Yet they can potentially employ a significant number of educated youth and provide Pakistan an opportunity to establish itself as a provider of quality professional expertise. Conventional thinking limits services to IT, but the field is vast. It includes call centers, business process outsourcing such as accounting, legal, architectural, engineering design and repair services, medical and general tourism. In short anything that earns foreign exchange other than from export of goods.

Given the growth trajectory of IT services, it alone can easily become the highest export earner after Textiles.

The Pakistan Regulatory Modernization Initiative (PRMI) has identified significant scope for digitization to bring down the cost and make it easier to do business. Reliance on local software developers for public sector digitization solutions will help the IT sector gain scale. NADRA systems, mostly home grown, have been working successfully in several overseas markets.

Recommendation	Progress
the Sindh government was levying a GST of 13% on IT, software business and call centers services. Last, but not the least, minimum tax on turnover, albeit on domestic transactions, limits the scale and hence the competitiveness of this sector. Another scale-inhibiting factor is the reliance on foreign software providers for public sector projects.	

Dispersion of Pakistan's Exports

In the top 20 HS Codes Pakistan's exports in 2021 amounted to US $25.4 billion, which represented 87.8% of the $28.9 billion total exports.

Potential Markets	Growing Global Demand	Declining Global Demand	Total
Pakistan Winning Market Share	17%	40%	57% Of exports winning share
Pakistan Losing Market Share	24%	19%	43% Of exports losing share
Total	41% In growing demand lines	59% In declining demand lines	100%

Our export dispersion is not ideal. 59% by value of our export lines have shrinking global demand. In 43% by value of our export lines we are losing market share. Just 17% by value of our export lines are in categories for which both demand and our share is growing. So, we are chasing the faster growing lines in an effective manner.

Thus,

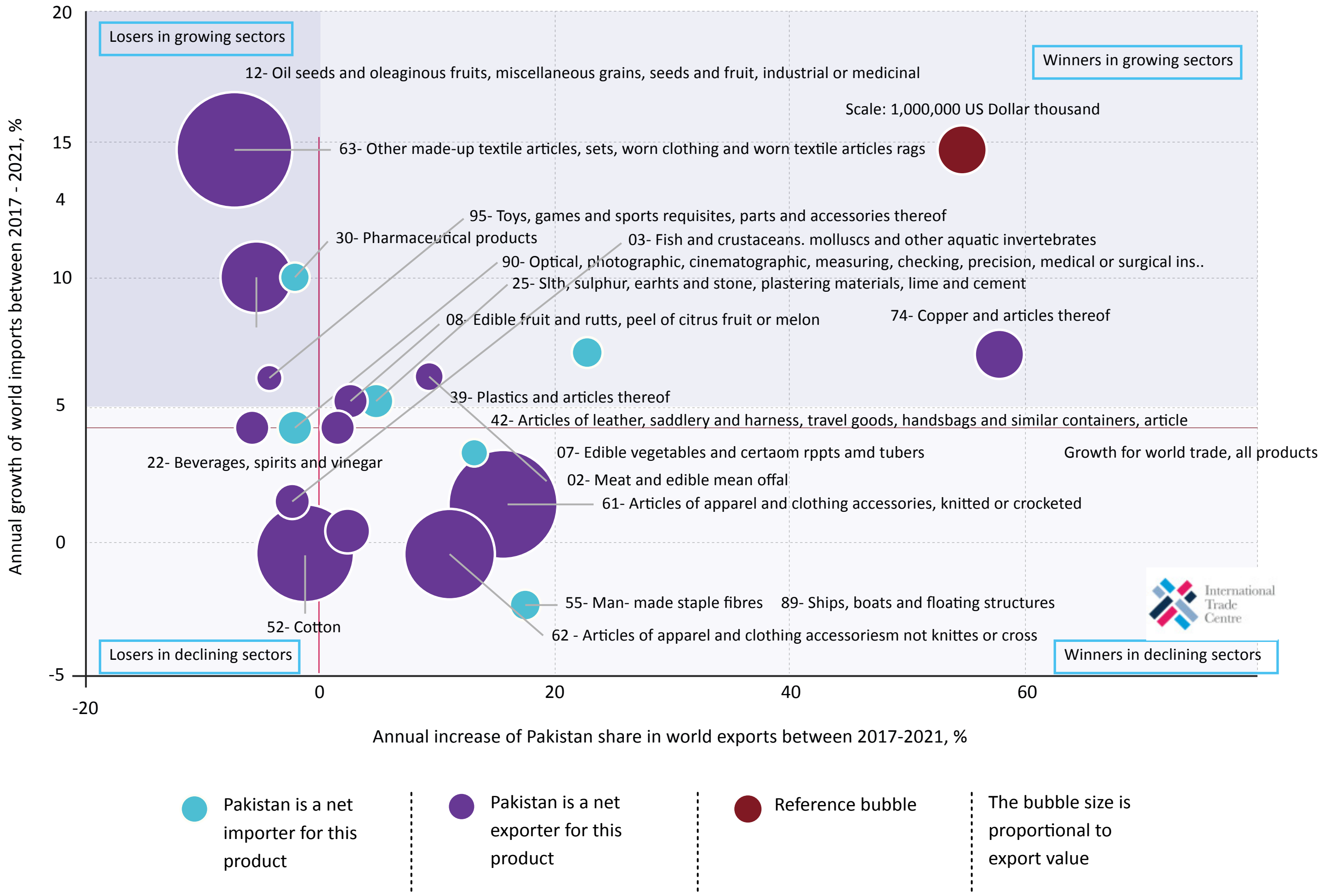
On a positive note, Pakistan was winning share in

57% OF THE LINES IT EXPORTED IN;

But Pakistan's export presence was just

41% IN LINES OF GROWING WORLD DEMAND;

Growth of national supply and international demand for products exported by Pakistan in 2021



Source: ITC, Trade Map

Pakistan's Export Representation in fastest growing and largest sectors

Are Pakistan's Exports Focused on the Fastest Growing and Largest Sectors?

Pakistan is Under-represented in Fastest Growing Export Lines

HS Code	Fastest Growing World Demand Lines	World Exports		Pakistan Exports		Pakistan's Market share % (2021)	If Pakistan's Exports were to grow in line with World Demand	Incremental Exports
		$ Mn (2021)	Growth % (2017-21)	$ Mn (2021)	Growth % (2017-21)			
26	Ores, slag and ash	375,557.71	16%	152.25	6%	0.04%	175.09	24.36
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles ...	15,971.79	16%	0.34	3%	0.00%	0.37	0.06
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	91,071.40	15%	5,515.53	7%	6.06%	6,342.86	827.33
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	1,437.23	14%	7.50	5%	0.52%	8.48	1.05
30	Pharmaceutical products	824,340.46	11%	269.43	7%	0.03%	296.37	29.64
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	3,665.81	11%	1.19	16%	0.03%	1.31	0.13

HS Code	Fastest Growing World Demand Lines	World Exports		Pakistan Exports		Pakistan's Market share % (2021)	If Pakistan's Exports were to grow in line with World Demand	Incremental Exports
		$ Mn (2021)	Growth % (2017-21)	$ Mn (2021)	Growth % (2017-21)			
31	Fertilisers	84,984.84	10%	0.01	-93%	0.00%	0.01	0.00
95	Toys, games and sports requisites; parts and accessories thereof	174,886.20	10%	238.23	1%	0.14%	252.53	23.82
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal edible fats; animal ...	148,268.58	9%	87.36	16%	0.06%	95.22	7.86
10	Cereals	154,002.99	9%	2,266.04	4%	1.47%	2,492.64	203.94
38	Miscellaneous chemical products	281,385.67	9%	53.49	20%	0.02%	58.83	4.81
23	Residues and waste from the food industries; prepared animal fodder	99,781.99	8%	102.56	20%	0.10%	110.76	8.20
74	Copper and articles thereof	214,749.53	8%	818.29	57%	0.38%	875.57	65.46
92	Musical instruments; parts and accessories of such articles	8,300.44	7%	3.94	1%	0.05%	4.13	0.28
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	328,030.10	7%	200.65	20%	0.06%	208.67	14.05
	TOTAL	2,806,434.73		9,716.80		0.35%	10,922.85	1,211.00

Pakistan is Under-represented in The World's Largest Export Lines				
HS Code	Ten Highest Value World Export Lines	World Exports ($ Mn) 2021	Pakistan Exports ($ Mn) 2021	Pakistan's Market Share (%) 2021
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	3,414,674.41	67.01	0.00%
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	2,484,583.02	142.58	0.01%
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	2,450,330.58	201.95	0.01%
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	1,494,127.61	86.10	0.01%
30	Pharmaceutical products	825,646.74	269.43	0.03%
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...	820,164.22	20.54	0.00%
39	Plastics and articles thereof	804,820.51	389.17	0.05%
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	682,029.07	437.03	0.06%
72	Iron and steel	557,528.60	103.76	0.02%
29	Organic chemicals	490,295.88	26.43	0.01%
	Total Top 10 HS Codes	14,024,200.63	1,744.00	0.01%
	Total Exports	21,953,101.38	28,880.01	0.13%
	% Accounted by top 10	63.88%	6.04%	

Some Observations on Pakistan's Main Export Categories

HS Code 61: Knitted Apparel

Pakistan is the 14th largest exporter of knitted apparel, in which world demand increased by 28% in 2021. Pakistan's export value outgrew this at 47%, suggesting improved competitiveness. However, at $4.5 billion, its export share of 1.7% is dwarfed by China's 31.9%, Bangladesh's 9.3% and Vietnam's 6.6%. China's export value increased by 39%, Bangladesh's by 32% and Vietnam's by 18%. Knitted apparel is not entirely a low-labour cost sector with countries like Germany, Italy, Turkey and India all holding more than twice Pakistan's share. Pakistan operates at the bottom end and there is opportunity to broaden the mix, add more value and address the trend towards man-made fibres.

Product : 61 Articles of apparel and clothing accessories, knitted or crocheted

Exporters	Value exported in 2020 (USD thousand)	Trade balance in 2020 (USD thousand)	Annual growth in value between 2017-2021 (%)	Annual growth in value between 2020-2021 (%)	Share in world exports (%)
World	270,906,707	36,982,583	3	28	100
China	86,457,923	81,795,330	2	39	31.9
Bangladesh	25,059,178	24,998,323	7	32	9.3
Viet Nam	17,888,194	16,472,579	7	18	6.6
Germany	12,765,527	(9,001,211)	6	18	4.7
Italy	11,033,533	2,584,529	4	21	4.1
Türkiye	10,784,069	10,091,601	3	29	4
India	7,870,323	7,313,415	-3	29	2.9
Netherlands	7,030,429	(1,109,139)	10	24	2.6
Spain	6,749,835	(2,177,876)	3	34	2.5
Cambodia	5,819,428	5,805,205	-4	12	2.1
Belgium	5,501,018	266,875	-1	10	2
France	5,500,563	(6,743,262)	2	19	2
Poland	5,305,943	(890,255)	22	33	2
Pakistan	4,498,019	4,428,801	13	47	1.7

Exporters	Value exported in 2020 (USD thousand)	Trade balance in 2020 (USD thousand)	Annual growth in value between 2017-2021 (%)	Annual growth in value between 2020-2021 (%)	Share in world exports (%)
Hong Kong, China	4,396,696	484,852	-14	4	1.6
Indonesia	4,350,466	4,024,474	1	30	1.6
Sri Lanka	3,337,356	3,263,235	5	31	1.2
United States of America	3,014,943	(49,268,485)	0	30	1.1
Portugal	2,757,805	1,533,462	-1	31	1
Denmark	2,608,302	(289,859)	6	33	1

Source: ITC calculations based on UN COMTRADE and ITC statistics.

HS Code 62. Woven Apparel

Pakistan's exports of woven apparel in 2021 increased by 29%, which is more than the increase in world exports. Its share at 1.5% is dwarfed by China's 30%, Bangladesh's 8.3% and Vietnam's 6.8%. Growth rates of Bangladesh and Vietnam's exports were less than Pakistan at 13% and 15% respectively in 2021. China's exports also increased by 13%, less than the increase in Pakistan's exports. Again, with Germany, Italy and Spain holding larger shares than Pakistan, woven apparel is not entirely a low labour cost reliant sector. Hence opportunity for Pakistan to sophisticate its offerings.

Product: 62 Articles of apparel and clothing accessories, not knitted or crocheted

Exporters	Value exported in 2021 (USD thousand)	Trade balance in 2021 (USD thousand)	Annual growth in value between 2017-2021 (%)	Annual growth in value between 2020-2021 (%)	Share in world exports (%)
World	233,589,893	29,182,316	0	13	100
China	70,099,298	64,027,555	-2	13	30
Bangladesh	19,316,486	19,141,261	2	15	8.3
Viet Nam	15,909,895	13,894,587	2	2	6.8
Italy	13,775,432	6,052,000	0	17	5.9
Germany	11,759,792	(6,260,112)	2	5	5
Spain	8,658,849	(958,836)	-2	31	3.7
Türkiye	7,515,499	6,707,605	5	14	3.2
India	7,332,885	6,731,487	-7	20	3.1
France	6,971,652	(4,989,544)	1	21	3
Netherlands	6,810,124	(1,459,599)	11	26	2.9
Poland	5,760,820	(567,795)	17	28	2.5
Indonesia	4,117,115	3,805,516	-2	13	1.8
Hong Kong, China	3,800,198	(251,283)	-15	6	1.6
Pakistan	3,395,080	3,352,488	7	29	1.5
Belgium	3,160,567	(604,277)	-3	5	1.4
Denmark	2,747,813	(40,490)	1	15	1.2
United Kingdom	2,734,809	(6,134,943)	-11	-27	1.2
Morocco	2,518,580	2,258,367	-2	32	1.1

Exporters	Value exported in 2021 (USD thousand)	Trade balance in 2021 (USD thousand)	Annual growth in value between 2017-2021 (%)	Annual growth in value between 2020-2021 (%)	Share in world exports (%)
Myanmar	2,494,979	2,479,131	6	-27	1.1
Mexico	2,215,851	574,302	-3	23	0.9

Source: ITC calculations based on UN COMTRADE and ITC statistics.

HS Code 63: Home Textiles

In Home Textiles, Pakistan holds the third highest share of exports at 6.1%. In 2021 its growth at 29% was significantly higher than that of China's and below India and Mexico's, suggesting scope to move up the value chain.

Product: 63 Other made-up textile articles; sets; worn clothing and worn textile articles; rags					
Exporters	Value exported in 2021 (USD thousand)	Trade balance in 2021 (USD thousand)	Annual growth in value between 2017-2021 (%)	Annual growth in value between 2020-2021 (%)	Share in world exports (%)
World	91,071,399	8,209,657	15	-25	100
China	41,857,184	41,379,190	21	-45	46
India	6,677,318	6,064,000	5	40	7.3
Pakistan	5,515,529	5,077,000	7	29	6.1
Germany	3,898,143	(2,600,411)	11	-5	4.3
Türkiye	2,895,118	2,657,161	10	15	3.2
United States of America	2,876,826	(19,175,001)	7	17	3.2
Viet Nam	2,396,897	1,500,539	20	-28	2.6
Netherlands	1,926,634	(785,095)	13	11	2.1
Poland	1,826,742	339,811	13	16	2
Mexico	1,626,747	631,309	6	50	1.8
Bangladesh	1,476,415	1,404,743	8	27	1.6
France	1,301,296	(2,509,075)	12	18	1.4
Belgium	1,246,331	(80,985)	6	-7	1.4
Italy	980,291	(914,272)	3	13	1.1
Portugal	958,430	645,352	7	7	1.1
United Kingdom	946,807	(2,188,173)	-2	-14	1
Spain	920,221	(956,527)	2	17	1
Korea, Republic of	836,200	(543,557)	16	-27	0.9
Czech Republic	798,507	76,074	10	3	0.9
Romania	558,172	83,465	1	1	0.6

Source: ITC calculations based on UN COMTRADE and ITC statistics

About PBC

The PBC is a private sector business policy advocacy forum composed of Pakistan's largest businesses / groups including multinationals that have a significant investment in and a long-term commitment to the growth of Pakistan. Members turnover represents every ninth Rupee of Pakistan's GDP and together the members contribute 25% of tax revenues and 40% of exports. More information about the PBC, its members and its activities can be found on our website www.pbc.org.pk

The PBC Members by Sector

PBC currently has 95 members, whose businesses cover nearly all sectors of the formal economy. The sector wise representation (in alphabetical order) is detailed below:

Sector	Member Companies
Large-Scale Manufacturing	
Agro Industries	2
Cement	2
Chemicals / Fertilizer	9
Energy	3
Engineering	10
Fast Moving Consumer Goods	19
Packaging Materials	3
Pharmaceuticals and Healthcare	6
Sports Gear	1
Textiles	12
Total Members in Large-Scale Manufacturing	**67**
Services	
E-Commerce	1
Financial services incl Banks	12
Hospitality	1
Insurance	2
Logistics / Courier	2
Real Estate Development	1
Software Services	1
Telecommunication	2
Utilities	1
Total Members in the Services Sector	**23**
Conglomerates	**5**

34 MNC's from 14 Countries

USA

Abbott

Coca-Cola

COLGATE-PALMOLIVE

PEPSICO

PHILIP MORRIS INTERNATIONAL

UK

gsk GlaxoSmithKline

UBL where you come first

Standard Chartered

Unilever

rb

UAE

Bank Alfalah

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ARCHROMA LIFE ENHANCED

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