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ENHANCING PAKISTAN'S COMPETITIVENESS IN NON-TEXTILE AND NON-FOOD EXPORTS

FINAL REPORT

Report by Consortium for Development Policy Research (CDPR)

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cdpr

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ACRONYMS

ADB	Asian Development Bank
ADD	Anti-dumping duty
ADP	Automotive Development Policy
AEC	Atlas of Economic Complexity
AIDEP	Automobile Industry Development and Export Policy
AIP	Atlas Industrial Park
API	Active Pharmaceutical Ingredients
ASEAN	Association of Southeast Asian Nations
B2B	Business to Business
Bn	Billion
BOI	Board of Investment
BOPP	Biaxially oriented polypropylene
B-READY	Business Ready Index
C&F	Cost & Freight
CAGR	Compound annual growth rate
CARs	Central Asian Republics
CAREC	Central Asia Regional Economic Cooperation
CBUs	Completely Built Unit
CKD	Completely Knocked Down
CINDE	Costa Rican Investment Promotion Agency
CPP	Cast polypropylene
CPEC	China Pakistan Economic Corridor
CPFTA	China Pakistan Free Trade Agreement
CSTP	Comprehensive Short Term Insurance Policy
DB	Doing Business
DEEP	Digital Economy Enhancement Project
DFI	Development Finance Institution
DLTL	Duty drawbacks on taxes and levies
DRAP	Drug Regulatory Authority of Pakistan
DTRE	Duty and tax remission for exports
EAC	East African Community
ECGS	Export Credit Guarantee Scheme
ECI	Economic Complexity Index
ECIS	Export Credit Insurance Scheme
ECOWAS	Economic Community of West African States

ACRONYMS

EDB	Engineering Development Board
EDF	Export Development Fund
EFS	Export Facilitation Scheme
EHCS	Engineering and Healthcare Show
EoDB	Ease of Doing Business
EOU	Export Oriented Unit
EPI	Expanded Program for Immunization
ERF	Export Refinance Facility
ERS	Export Refinance Scheme/Facility
ESG	Environmental, social and governance
EU	European Union
EV	Electric Vehicle
EXIM	Export Import
FBR	Federal Board of Revenue
FDI	Foreign Direct Investment
FED	Federal Excise Duty
FOB	Freight On board
FTA	Free Trade Agreement
FY	Fiscal Year
GAVI	Global Alliance for Vaccines and Immunization
GCC	Gulf Country Cooperation
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GoP	Government of Pakistan
GOTS	Global Organic Textile Standards
GPI	Green Pakistan Initiative
GSP	Generalized Scheduled of Preferences
GVC	Global Value Chain
GW	Gigawatt
HS	Harmonized System
IMF	International Monetary Fund
IPA	Investment promotion agency
IPP	Independent Power Plant
ISO	International Organization for Standardization
IT	Information Technology

ACRONYMS

ITC	International Trade Centre
Jvs	Joint Ventures
kWh	Kilowatt Hour
KPEC	Khyber Pass Economic Corridor
KPI	Key performance indicator
Lcs	Letters of Credit
LPI	Logistic Performance Index
LRLTFF	Long-runLong-term Finance Facility
Mn	Million
MNCs	Multinational corporations
MOC	Ministry of Commerce
MOIP	Ministry of Industries and Production
MW	Megawatt
N.E.S	Not elsewhere specified
NPSES	National Priority Sectors Export Strategy
NRCS	Natural Resources Conservation Service, USA
NRDO	National Regulatory Delivery Office
NTBs	Non-tariff barriers
NTMs	Non-tariff measures
NTP	National Tariff Policy 2019-24
OEM	Original Equipment Manufacturer
OSS	One Stop Shop
PCGC	Pakistan Credit Guarantee Company
PE	Polyethylene
PEFGA	Pakistan Export Finance Guarantee Agency
PIC/S	Pharmaceutical Inspection Co-operation Scheme
PNAC	Pakistan National Accreditation Council
P,M&E	Plant, Machinery and Equipment
PP	Polypropylene
PPP	Public Private Partnership
PRMI	Pakistan Regulatory Modernization Initiative
PSW	Pakistan Single Window
PTA	Preferential Trade Agreement
PTFP	Pakistan Trade Facilitation Portal
PTP	Pakistan Trade Portal

ACRONYMS

QTTA	Quadrilateral Traffic Transit Agreement
RCEP	Regional Comprehensive Economic Partnership
R&D	Research and development
RLCOs	Registrations, licenses, certificates and other permits
SAAF	SME Asaan Finance
SAARC	South Asian Association for Regional Cooperation
SACU	Southern African Customs Union
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SEZ	Special Economic Zone
SIFC	Strategic Investment Facilitation Center
SKD	Semi-knocked down
SME	Small and Medium Enterprise
SMEA	Small and Medium Enterprise Activity
SMEDA	Small and Medium Enterprise Authority
SPSS	Sanitary and Phytosanitary safety standards
SRO	Statutory Regulatory Order
STPF	Strategic Trade Policy Framework 2020-25
TBT	Technical Barriers to Trade
TDAP	Trade Development Authority of Pakistan
TDO	Trade Development Officer
TIPP	Trade Information Portal Pakistan
TIR	Transport International Routiers
TRIPF	Trade-Related Investment Policy Framework 2015-23
TTA	Transit Trade Agreement
UAE	United Arab Emirates
UK	United Kingdom
UNICEF	United Nations Children's Fund
US	United States
USD	US dollars
WeBOC	Web Based One Custom
WEF	World Economic Forum
WHO	World Health Organization
WHT	Withholding tax
WTO	World Trade Organization

EXECUTIVE SUMMARY

Introduction

Over the past seventy years or so, Pakistan has relied largely on a natural comparative advantage in such primary products as cotton, food crops, and livestock to develop an export base in goods of just around $32 billion in 2024. This base is modest in scale (barely around 8.5% of GDP) and low in value addition. It consists largely of products based on low-skilled labor and simple technology. The production of these items does not feature the sort of linkages and learning that allow for entry into more complex product lines known to be associated with high value addition and productivity. Indeed, Pakistan seems stuck with a stagnant and unchanging export basket, dominated by the same broad set of items that it had thirty or so years ago. This aspect of the country's trade performance was recognized in the last Strategic Trade Policy Framework document which noted the lack of success in achieving adequate "diversification, product sophistication (and) productivity" (see STPF, 2020, page 5).

Countries that have transitioned over time into diversified economies with diversified export baskets have travelled along various pathways. Some have found new sources of natural comparative advantage, often based on hydrocarbons (such as oil and gas) or minerals (such as copper and iron). This has not happened to a significant extent in Pakistan. From this class of products, only copper has emerged as a new export in the last forty years, predominantly in the form of minimally processed copper ore.

Another path to export growth and diversification has been transition to labor intensive manufacturing exports. Prominent country examples from recent years include Bangladesh and Vietnam which have become big exporters of textiles and/or garments even though they do not grow cotton, the key raw material for such goods. Pakistan, which grows cotton, remains a significant exporter of basic textiles but has failed to diversify successfully into garments or higher value-added textiles.

Still another path has involved the growth and application of science and engineering skills. At varying speeds and to different extents, countries such as Korea, Taiwan, China and Singapore have moved away from low skill manufacturing exports, such as basic textiles, into higher-skill exports, such as machinery, chemicals, plastics and electronics. One could say that engineering and related skills have become new sources of comparative advantage for these countries. This has not yet happened in Pakistan.

Export potential in non-traditional sectors

Pakistan now faces the double challenge of expanding the quantity of exports while simultaneously enhancing quality through diversification. The objective of this report is to assess the potential for export diversification into more complex products in the non-textile and non-food areas. This is done in two steps. First,

the Atlas of Economic Complexity database is utilized to identify product categories where export growth promises higher value addition over time. This is done in Chapter 2. Second, the export experience of each of these product categories is reviewed in detail, through interviews with key market participants as well as secondary sources of information. This is done in Chapter 3.

Identification of more complex export products: analytical methodology
The Atlas of Economic Complexity database scores each traded product at the 4-digit HS level along three dimensions:

a) Distance, in which the manufacture of a "nearby" product requires capabilities and costs close to those for existing products. Attempting to export a "nearby" product is likely to be more successful than attempting to jump to a "distant" product.

b) Opportunity Gain, which reflects the extent to which the product category offers links to more complex products and value chains and thereby to higher levels of value-addition.

c) Product Complexity, which reflects the diversity of know-how required to make a product. The higher the product complexity, the more challenging the know-how requirements.

The AEC database for Pakistan was used to identify products that met three conditions:

a) a "Nearby" Distance rating no less than 2.5 (out of 5); the higher this rating, the nearer is the product to locally available capabilities and export clusters.

b) an Opportunity Gain rating of at least 3 (out of 5); the higher this rating, the higher the likelihood of a transition to items featuring higher value added.

c) a Product Complexity rating no more than 3.5 (out of 5); the higher this rating the more diverse and challenging the knowhow requirements.

These three filters yielded products from the following five sectors: Iron and Steel; Motorcycles; Plastics; Rubber Tires and Cement. These areas are near enough to existing production capabilities to be realistic but promise to take investments along a path of greater linkages and learning, leading to higher productivity. During interviews with sector participants, we concluded that it would be useful to also add Tractors and Machinery sector products to this list.

Export experience in the selected sectors
The analysis reveals that Pakistan has been able to build a modest export base (about $1 billion in 2024) in these sectors largely because of nimble entrepreneurship that has enabled entry into market niches characterized by low volume sales of products of moderate quality. In the Iron and Steel and Plastics

sectors, for example, some companies have opened offices in the US and Canada to build marketing relationships and procure orders as domestic companies. Others have identified custom products where their combination of quality and price is attractive to some customers. Pakistan is unable to compete in standardized products, which are dominated by India and China who benefit from scale economies available in their huge domestic markets. The focus on niches is seen in the Machinery sector as well, where some firms have succeeded by focusing on narrow product lines such as wheel hubs for trucks or sugar cane crushing machines. Some firms have found export success by identifying suitable areas through market research and intelligence operations, including by participating in trade fairs and exhibitions. Such operations can sometimes identify tariff and nontariff anomalies affecting competitors but beneficial for Pakistan. In each of these cases, it has been the agility of the entrepreneur that has accounted for success. Such entrepreneurship has had to struggle against two common constraints: having to import key raw materials and paying high costs for energy. The role of skilled labor and foreign investment has not been uniformly important but may become so in the future.

Table 1 Sources of competitive advantage and disadvantage, by selected sectors

Source	Sources of competitive advantage	Sources of competitive disadvantage
Iron and Steel	Nimble entrepreneurship and marketing	Cost of imported steel and coils; Cost of energy
Machinery	Nimble entrepreneurship and marketing; Local engineering skills	Cost of imported steel and components; of energy
Motorcycles and Tractors	Localization of components; Technical and marketing partnership with foreign companies	Cost of energy
Plastics	Nimble entrepreneurship and marketing	Cost of imported plastic pellets and granules; Cost of energy
Rubber Tires	Nimble entrepreneurship and marketing	Cost of imported rubber and carbon black; Cost of energy
Cement	Local supply of raw materials and production efficiency	Transportation costs; Cost of energy

Role of imported raw materials

Representatives from four of the six sectors considered in this report indicated that the cost of raw material imports was a significant concern. Of the other two, in the case of motorcycles/tractors, there has been a substantial localization of components over the years. Meanwhile, cement production benefits from a comfortable local supply of limestone, silica and gypsum. The remaining foursectors suffer a competitive disadvantage in not having a local source of primary raw materials, especially in comparison with competitors such as China

and India. Without domestic iron ore or steel making capability, all downstream industries must contend with the need to import steel billets, sheets and coils. In the machinery sector, imported compressors and heat pumps were reported to account for up to 85% of the cost of producing refrigerators and freezers. This leaves a small margin for adding local value. In the plastics sector, the lack of naphtha cracking facilities in the country compels producers to use imported raw materials which can account for up to 60% of total costs. The export prospects of rubber tires are affected by the fact that 80% of raw materials (mostly natural and artificial rubber and carbon black) are imported. Imported raw materials become a constraint especially when the Pakistani rupee depreciates, which has happened steadily over many years, and more dramatically since 2020. Each episode of devaluation or depreciation increases the rupee cost of imports.Local industrialists sometimes make the case for expanding local steel making and naphtha cracking capability.[1] However, such a case must contend with two big challenges. First, the local supply of iron ore and petroleum is meagre. So, these raw materials must be imported even if local smelting and refining capacity is somehow expanded. Second, smelting and refining are energy-intensive processes and Pakistan features higher energy costs than competitors.

Role of energy costs

Comparatively high energy costs (i.e., higher than those prevailing among competitors) have been a source of concern for each of the sectors considered in this report. In recent years, such costs have risen for two main reasons. First, there has been significant depreciation of the Pakistani rupee which has raised the rupee cost of fuel. Second, fiscal stress has led to higher taxes on energy, which has also raised the domestic cost of fuel. Thus, the unit cost of electricity ($/kWh) faced by Pakistani manufacturers in FY24 was $0.15 compared with $0.10 in India and $0.09 in China, two big competitors in each sector.

There are two ways to reduce energy costs directly. First, the government can reduce the taxes it applies to energy. Second, it can reduce the capacity charge component of the cost by renegotiating contracts with Independent Power Plants (IPPs). These contracts include take or pay clauses that require the government to pay for built energy capacity even if no energy is purchased. In the longer run, the composition of energy supply must shift away from imported fossil fuels to domestic sources. Of these, hydroelectric, nuclear and renewable energy are the most promising since they involve less greenhouse gas emissions. Given the difficulties of developing hydroelectric and nuclear sources, it is renewable energy where public policy and investment effort should be focused. The private sector (both residential and industrial) has already begun moving away from expensive fossil fuel-based energy towards solar energy.

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1 We understand there exist proposals to build a steel making plant (by Yaqin Steels) and a naphtha cracking complex by the Ministry of Industries and Production. These are still at the feasibility study stage.

Role of engineering and technical skills

To achieve higher value added in exports requires moving into more complex goods which, in turn, requires a more technically skilled workforce. This is what happened in the East Asian countries (like Korea, Taiwan, Singapore, China, Thailand and Malaysia) during the past six decades or so. But it has not happened in Pakistan. In each sector considered, we were told that domestic engineering universities and technical training institutes were not producing skills at a scale and of a quality matching industry needs. However, labor remains a small part (5-10%) of the overall cost structure in these sectors and so the matter has not yet been elevated to a major competitive disadvantage. Nevertheless, over the next fifteen to twenty years, having more and better engineering and technical skills will become critical for export diversification. Accordingly, Government should give high priority to enhancing the quantity and quality of engineering and technology graduates over the next decade or so.

Role of foreign investment

The role played by foreign investment in export expansion has varied from country to country over the last seventy years. Korea and Taiwan relied mostly on licensing foreign technology rather than direct foreign investment. But domestic companies were only given bank credit and access to foreign exchange if they proved their worth through export success. Other countries, such as Malaysia and Singapore, allowed foreign investment to engage directly in exports and provided an economic, regulatory and legal environment which attracted many foreign companies.

In more recent times, Vietnam has used foreign investment to achieve remarkable export success. It missed the early phase of export expansion from Asia during 1960-75, as it followed socialist economic policies and was engaged in a debilitating civil war. After winning the war in 1975, it took another two decades to come around to a China-style opening to market-oriented economic policies and develop infrastructure, education, and economic policies that attracted export-oriented foreign investment in the 2000s. Among key infrastructure interventions were investments in ports, roads and industrial zones. Free primary and secondary education provided the country with a relatively inexpensive and moderately skilled workforce. Key trade policy decisions included acceding to the WTO (in 2007) and signing free trade agreements with many countries, including Japan, South Korea and the EU, which helped provide a more predictable tariff and foreign investment environment. By now, several companies from South Korea, Japan, Singapore, Taiwan, China and even the United States have invested to export in a range of sectors including electronics, textiles, automotives, logistics, energy, construction and heavy industry. Vietnam has also benefited from rising tensions between the US and China, prompting more Chinese companies to transfer production and assembly operations there. In 2024, Vietnam exported $400 billion of goods, almost twelve times more than Pakistan. Most observers credit Vietnam's success to political stability, low-cost labor,

improving infrastructure and an enabling business environment for foreign investment that offers physical and legal security along with macroeconomic stability.

In Pakistan, foreign investment has played an import substituting role but not an export expanding one. This has been the case, for example, for transport vehicles (such as motorcycles and automobiles), white goods (such as refrigerators and washing machines), and a great variety of consumer goods. In most cases, the joint ventures (JVs) that were established did not allow the local partner to export at will, since the foreign partner did not wish to have such competition in its own export markets. Over time, some JVs did allow limited exports to specific markets, such as motorcycles and tractors (and their parts) in Afghanistan and some countries in Africa. This also been the case for rubber tires where the JV partner has encouraged exports to some Latin American markets. In other cases, such as in the machinery sector, some domestic companies were able to purchase or lease technology licenses from foreign companies which allowed them to export directly. So foreign investment can be both a facilitator and a constraint to exports, depending on the specific terms included in JV and technology licensing contracts.

What can Pakistan learn from successful examples like Vietnam to enhance exports in the future? Like Vietnam, Pakistan has a low-cost labor force but, unlike Vietnam, few investors have come forth to make use of it. Indeed, even domestic investors do not make use of it. The domestic investment rate has fluctuated around 10% of GDP for the last three decades. This may be due to issues such as physical security, governance, energy costs, credit availability, macroeconomic instability, logistics and other factors defining the local business climate. Some of these issues, such as logistics and financing, are taken up in Chapter 4 to assess the state of export readiness across these sectors. Other issues that affect ease of market entry, such as improving access to foreign markets through trade diplomacy and support, are examined in Chapter 5.

Domestic Logistics

The cost and efficiency of domestic logistics significantly affect a country's export competitiveness. High logistics costs can render even competitive products unviable in international markets, especially in sectors that operate on narrow margins. Efficient and affordable logistics are central to export success. Countries such as Vietnam have shown that improving export logistics reduces costs and increases competitiveness in global value chains, attracting foreign direct investment. In contrast, Pakistan's logistics costs are the highest in the region, adding up to 20% to the value of traded goods—more than the tariff barriers faced in most destination markets. This erodes price competitiveness and limits participation in global value chains. With competitors like India and Bangladesh integrating streamlined logistics into their broader export strategies, Pakistan must reform its domestic logistics landscape to avoid being locked into low-value OEM manufacturing.

Improving trade infrastructure, especially multimodal connectivity, port automation, and trucking modernization—can have a larger impact on export volumes than securing lower tariffs abroad. Logistics reforms should be prioritized accordingly. Pakistan was ranked 122nd out of 160 countries in the 2018 World Bank Logistics Performance Index, and was unranked in 2023, while India improved its ranking to 38. Key issues include inefficiencies in customs, tracking, and transport-related infrastructure. Rail handles only 2% of domestic cargo, while port congestion and a 7-day dwell time hinder competitiveness. Investment in multimodal transport, last-mile port connectivity, and inland container terminals, as well as efforts to digitalize logistics processes and improve port handling, are critical.

Pakistan has geographic advantages via the Arabian Sea and initiatives like CPEC and CAREC. Pakistan's strategic access to international shipping routes, along with infrastructure investment through initiatives such as CPEC, CAREC, and recent private port investments, could be leveraged as a unique value proposition. However, such investments must be coupled with policy coherence, customs modernization, and efficient multimodal linkages to realize their trade-promoting potential. These could position it as a regional logistics hub. These must also include a shift toward coordinated governance — possibly through a National Transport and Logistics Authority — and investment in infrastructure upgrades that prioritize private sector participation through bankable PPP models, supported by blended finance instruments.

Trade Financing

Exporters face two key financial constraints. First, they lack sufficient access to working capital or credit lines. Banks tend to lend conservatively, with significant preference for government securities and traditional sectors like textiles. The result is a significant credit gap, especially for small and non-traditional exporters. Second, existing SBP refinance schemes do not always reach new or high-potential sectors, despite being open in principle. To address this, more inclusive trade finance tools—such as export guarantees, insurance schemes, or blended finance PPP models for infrastructure—could be introduced to level the playing field.

Exporters consistently cite access to finance as a barrier to scaling up. Concessionary finance schemes operated by the State Bank of Pakistan are underutilized in non-traditional sectors. A reorientation of such programs — with sector-neutral eligibility criteria, awareness and educational campaigns, and targeted SME support — could broaden uptake. Best practices globally point to trade finance tools like credit guarantees, insurance schemes, and receivables-based financing as effective levers to derisk private sector lending to non-food non-textile sectors. This could help unlock private sector export potential.

The Export Development Fund (EDF) also has untapped potential. A more

transparent and structured approach to EDF windows proposed in the Draft EDF Strategy 2025 could enable co-financing of market entry efforts (market intelligence), standards compliance, and value chain development in high-potential sectors. Reforms could include dedicated EDF financing windows aligned to sector-specific export strategies, administered via a competitive and outcome-based framework.

Additionally, Pakistan's limited global banking footprint is a growing impediment. With major domestic banks having exited important foreign markets, exporters are forced to rely on intermediaries, increasing transaction costs. Rebuilding banking correspondent relationships should become a formal component of trade diplomacy.

Trade Diplomacy Considerations

Pakistan's exporters face a dual challenge: lack of preferential market access and an inability to fully leverage the preferences it does enjoy. In ASEAN, for instance, Pakistan faces 2–3% higher tariffs than India or China. In Africa, despite the 2017 "Look Africa" policy, Pakistan lags far behind in outreach—India, by contrast, has 32+ agreements and is among the top 3 trade partners across the continent enjoying an early mover advantage. Even in the EU and US, where Pakistan has GSP or MFN access in products like rubber tires, motorcycles, and plastics, it has not significantly expanded exports — in part due to non-tariff measures (NTMs). India and China have negotiated far more bilateral and regional agreements, often paired with mutual recognition of standards, local currency trade, and embedded banking infrastructure. Pakistan must negotiate strategically, not reactively. In India and China, government agencies proactively support exporters in meeting foreign standards, subsidizing compliance costs and facilitating mutual recognition agreements. In Pakistan, firms often must pursue expensive international certifications themselves, while domestic testing and quality assurance infrastructure remains underdeveloped and poorly trusted.

Emerging geopolitical risks may open temporary windows of opportunity. For instance, “reciprocal” tariffs introduced by the United States during the Trump administration have created disruptions for traditional suppliers like China and India. Some Pakistani firms — particularly in plastics and motorcycles — may find near-term advantages if they are nimble in meeting compliance requirements and targeting affected markets. However, such opportunities are fleeting and should be anchored in a proactive trade diplomacy framework that includes high-powered bilateral platforms, faster resolution of trade disputes, and alignment on standards.

Trade Support Considerations

Pakistan enjoys a tariff edge on the selected sectors in several large markets, including the EU, UK, and Turkey, compared to regional competitors like India and China. However, this advantage has not translated into significant market share gains, due to non-tariff barriers, weak branding, and limited trade representation.

Exporters often lack information about destination country regulations, while domestic certification systems are not aligned with international norms. Government facilitation — in the form of subsidized testing, bilateral standards recognition, and dedicated support desks — is needed to lower compliance costs and help firms access regulated markets. Africa, Latin America, and Central Asia offer high-opportunity export markets for Pakistan's non-traditional sectors, but require groundwork: improved logistics links, banking relationships, and mutual recognition of standards.

Pakistan's trade support ecosystem remains underdeveloped and under-resourced. Export promotion services in Pakistan are fragmented. The Trade Development Authority Pakistan (the main trade promotion agency TDAP) focuses largely on subsidizing trade fair participation rather than providing actionable market intelligence. Smaller firms in particular struggle to identify foreign buyers, understand regulations, or navigate export procedures. While some large exporters manage to build in-house teams to sustain overseas relationships, most firms lack this capacity.

Gains in non-traditional sectors are real but isolated. For example, firms in tires, tractors, and motorcycles have broken into Brazil, USA, and Kenya, but these successes are not yet systemic. TDAP could play a more strategic role, offering regulatory compliance support, buyer intelligence, and sector-specific promotion strategies. Better coordination between TDAP, EDF, and Export Import Bank Pakistan (EXIM Bank) can catalyze exports from these sectors. Trade officers should work closely with sector councils, identify key buyer networks, and provide regulatory and market-entry guidance. Given linguistic and legal barriers in Latin America and Africa, country-specific intelligence and compliance support could make a significant difference.

In the medium term, Pakistan should establish sector-specific Export Promotion Councils for non-traditional industries (like it is doing for pharmaceuticals), modeled after South Korea and India. These should be tasked with preparing sector export strategies, deploying market development funds, and facilitating compliance infrastructure. Such reforms would not only support existing exporters but could help nurture new entrants into the export space.

Investment Promotion

Finally, Pakistan must better integrate its investment and export strategies. Regional competitors are actively marketing their export ecosystems to foreign investors, offering bundled incentives, logistics corridors, and supply chain services. Pakistan must position itself not just as a source of exports, but as a hub for export-oriented investment.

Investment promotion should emphasize Pakistan's geographic location, preferential access to key markets, and improving trade facilitation reforms. The Board of Investment (BOI) should be empowered to coordinate across ministries

and pitch integrated export-investment propositions, backed by policy predictability. Investment in logistics automation and digital customs systems is already underway. However, global best-practice suggests that a modern investment promotion agency must go beyond facilitation to act as a strategic matchmaker, creating investor pipelines, enabling linkages with domestic firms, and coordinating across trade and industrial policy.

Based on the analysis in the study, indicative pathways to enhance the export potential of non-food, non-textile sectors are presented in Table 2.

Table 2 Potential pathways for enhancing export potential

Challenge	Key Objectives	Possible Interventions
Expensive energy supply	Reduce the high cost of energy in Pakistan	Renegotiate IPP contracts to reduce capacity charges. Reduce taxes on electricity and gas for industrial users to levels prevailing among competitor countries.
Poor logistics/ infrastructure	Better logistics/ infrastructure	Review domestic transport policy to enhance cargo transport by rail; upgrade rolling stock and tracks; further automate port procedures through cranes, inspection scanners and digital tools; improve port management systems
Inadequate export financing	Expand export financing to non-traditional sectors	Work with SBP to develop movable assets finance, Utilize EXIM Bank for export credit insurance and guarantees; Develop digital trade finance products to streamline access
Limited access to non-traditional markets	Secure bettermarket access for non-traditional exports	Review existing PTAs to learn what features to incorporate in new PTAs; focus on Africa; negotiate sector specific agreements in non-traditional export markets to reduce market access barriers
Underutilized trade diplomacy	Engage trade partners in new markets lite Latin America, Africa and Central Asia	Develop high-powered committees to bilaterally address trade/investment obstacles, facilitate stronger banking channels and adopt agreements on mutual recognition of standards; Undertake trade facilitation exercises with relevant Customs and Border Control authorities in non-traditional export markets
Inadequate trade support	Provide more trade support to exporters	Build TDAP capacity by pairing their officers with MoC Sector Specific Councils to share industry-specific resources like data; Instruct TDAP to provide market-product-specific trade intelligence through their trade attachés; Develop sector-specific export promotion councils

Challenge	Key Objectives	Possible Interventions
Weak compliance infrastructure	Improve regulatory alignment with trade partners	Conduct workshops/trainings on regulatory compliance; sign mutual recognition agreements; get Pakistan National Accreditation Council internationally recognized; encourage more accredited certification bodies (local/foreign) to enter the market

1. Introduction and context

1.1 Pakistan's export conundrum: Failure to add value and diversify

For the last three decades, Pakistan's export basket has remained concentrated in primary commodities and low value-added manufacturing goods, mostly within the agriculture (including food) and textile sectors. Historically, these sectors have been an important growth engine for the economy, but as Pakistan's per capita income rose over time, the accompanying structural transformation was modest in scope. While the country added some new products to its export basket over the last fifteen years, these were largely based on natural resources and agriculture, adding little value per unit output.[2]

Exports have stalled in recent years as a share of GDP, declining from 13 per cent to 11 per cent between 2009 and 202. The export ratio is now much lower in Pakistan than in countries with comparable incomes, a far cry from the 1990s when Pakistan had the highest export share of GDP within South Asia, and equal to the average for lower middle-income countries.[3] The falling share of exports in GDP is of concern because of the implications for overall productivity in the economy. Competitiveness in international markets is increasingly correlated with innovation and productivity.

In addition, Pakistan's exports consist of a narrow range of products that are low in economic complexity.[4] Economic complexity quantifies the knowledge stock in an economy based on its product offerings for local and global markets. It is measured by the range and uniqueness of product offerings. The most recent Economic Complexity Index (ECI), ranks Pakistan 94th out of 133 countries in terms of the complexity of products it exports, slipping 4 places in the last 10 years.[5] This indicates that Pakistan's exports have become relatively less complex in an increasingly complex world.

At present, Pakistan is producing and exporting far fewer diversified products than other lower-middle income countries. This has lowered Pakistan's global trade competitiveness, reduced its export earnings, and thwarted the expansion of industry and employment. It has also left Pakistan more vulnerable to external shocks and supply-chain disruptions.[6]

1.2 Export trends and structure

Figure 1 shows that total exports (of goods) havedoubled over the last two decades from $16.1 billion to $32.5 billion. But this does not count as good

2 Pakistan Business Council and CDPR (2024). Khan, U, Hussain, T., Salman, Z. Zaman, A, Aziz, H. Export Diversification into Non-Traditional Product Segments.

3 World Bank. Our World in Data. Retrieved from https://ourworldindata.org/grapher/merchandise-exports-gdp-cepii?country=PAK~BGD~IND~IDN~Lower-middle+income~MYS~VNM

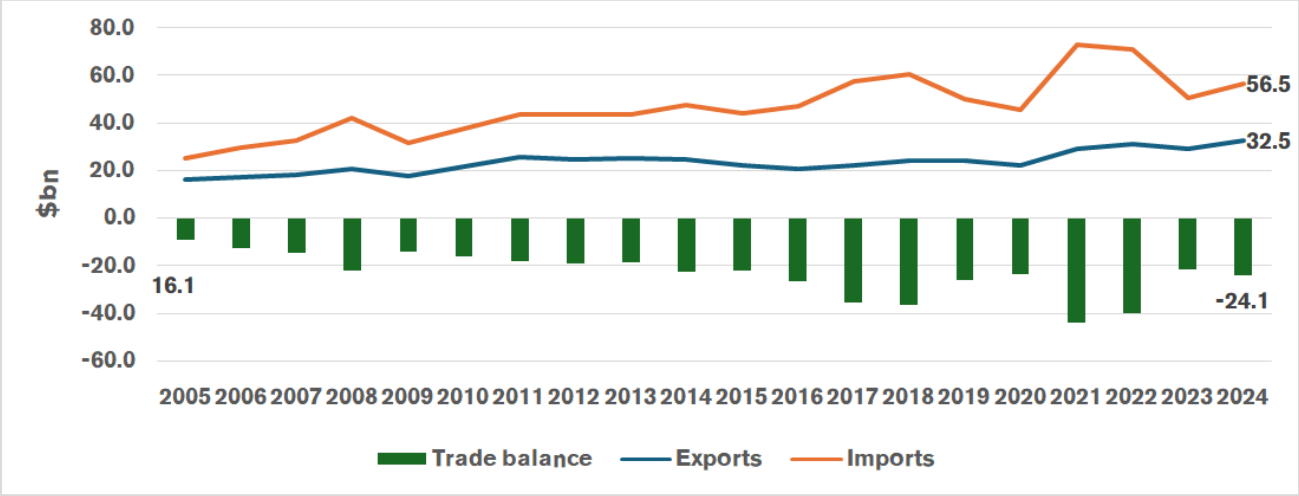
4 Harvard Atlas of Economic Complexity. https://atlas.cid.harvard.edu/rankings.

5 Ranking of countries based on how diversified and complex their export basket is. Retrieved from https://atlas.cid.harvard.edu/countries/168

6 Chen, S., Tsang, E. and Zhang, L. (2023). Global supply chain interdependence and shock amplification – evidence from Covid lockdowns.https://thedocs.worldbank.org/en/doc/3e5537ac17a795823a3e3c46b12c0351-0050022023/related/50-Global-supply-chain-interdependence-and-shock-amplification-evidence-from-Covid-lockdowns.pdf

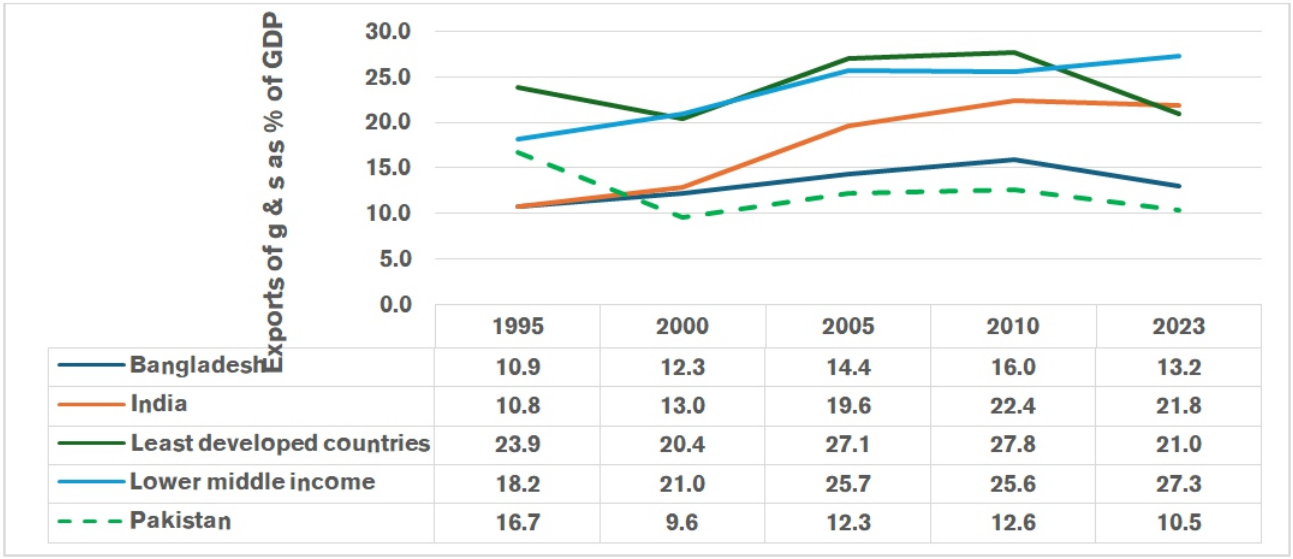
performance for two reasons. First, many comparator countries have seen much faster rates of export growth. This includes several countries in southeast Asia, such as Vietnam and Thailand. Indeed, Pakistan has been losing global market share from an already low presence. Second, exports of goods and services have declined as a ratio of GDP, from 16.7% in 1995 to only 10.5% in 2023, far lower than the lower middle-income category average (27.3%) (see Figure 2).

Figure 1 Pakistan's historical trade trends



Source: ITC TradeMap

Figure 2 Comparative trends in Export/GDP among South Asian countries (2004-2023)



	1995	2000	2005	2010	2023
Bangladesh	10.9	12.3	14.4	16.0	13.2
India	10.8	13.0	19.6	22.4	21.8
Least developed countries	23.9	20.4	27.1	27.8	21.0
Lower middle income	18.2	21.0	25.7	25.6	27.3
Pakistan	16.7	9.6	12.3	12.6	10.5

Note: 2023 is the latest year available

Source: World Development Indicators. Retrieved https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS

There is a third reason why Pakistan's export performance has been worrisome, and this is the failure to diversify the export basket. Table 3 shows that the top ten products exported by Pakistan in 1993 included mainly textile and apparel, followed by agricultural products, minerals and leather goods. Table 4 shows these products dominating the export basket for 2024 as well. Within agricultural goods, oilseeds and fruits entered the top ten categories whereas, within minerals, copper entered as well. Cement (clinkers) is also within the top 10 exports of Pakistan in 2024.

Table 3 Top 10 exports (1993)

Rank	HS 2-digit	Product	Export ($) 1993
	TOTAL	All Products	12 bn
1	'52	Cotton	2.5 bn
2	'63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	2.4 bn
3	'61	Articles of apparel and clothing accessories, knitted or crocheted	1.3 bn
4	'62	Articles of apparel and clothing accessories, not knitted or crocheted	1.1 bn
5	'10	Cereals	677 mn
6	'54	Man-made filaments; strip and the like of man-made textile materials	621 mn
7	'42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles	459 mn
8	'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral	274 mn
9	'95	Toys, games and sports requisites; parts and accessories thereof	269 mn
10	'41	Raw hides and skins (other than furskins) and leather	237 mn

Table 4 Top 10 exports (2024)

Rank	HS 2-digit	Product	Export ($) 2024
1	63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	5.5 bn
2	61	Articles of apparel and clothing accessories, knitted or crocheted	4.8 bn
3	10		4.5 bn
4	62	Articles of apparel and clothing accessories, not knitted or crocheted	3.9 bn
5	52	Cotton	2.7 bn
6	74	Copper and articles thereof	842.4 mn

Rank	HS 2-digit	Product	Export ($) 1993
7	42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers;	659.5 mn
8	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	559.1 mn
9	17	Sugars and sugar confectionery	549.1 mn
10	25	Salt; sulphur; earths and stone; plastering materials, lime and cement	537.8 mn

Source: Based on data from ITC TradeMap

1. Identification of more complex exports

The previous chapter has shown that Pakistan's export conundrum has both quantity and quality dimensions. The quantity dimension arises from the fact that, over the last two decades, exports have been stagnant or falling as a ratio of GDP. This poses a macroeconomic challenge in the form of persistent current account deficits. The quality dimension arises from the fact that the bulk of our exports involve what are now considered simple technology and skills, aspects that limit value-addition and productivity. Our exports do not add as much to productivity as do those in countries with exports of higher economic complexity. Moreover, the composition of exports has remained stagnant over the past few decades, further entrenching the country in an export portfolio that is unable to propel it up the productivity ladder. ***The challenge for policy makers is not just to promote export quantity but also to enhance export quality. Towards this end, we have conducted an analysis to identify products of greater economic complexity that might realistically be exported in greater quantities from Pakistan in the next fifteen to twenty years.***

2.1 Analytical Approach

One approach to identifying possible new exports is to look deeper within the categories of goods that the country is already producing and exporting. Such a search can reveal items that are close in production technology requirements (such as labor skills and machinery) to goods already being produced but that are not being exported for some reason. A drawback to this approach is that it does not typically identify goods featuring a higher level of domestic value addition.

To capture the complexity aspect, the Atlas of Economic Complexity (AEC) database is utilized. This database scores each product at the HS 4-digit level along three characteristics:

-Distance, in which the manufacture of a “nearby” product requires capabilities and costs close to those for existing products. Attempting to export a “nearby” product is likely to be more successful than attempting to jump to a “distant” product. In practice, distance is assessed by recording products found clustered together in export baskets of different countries in the world trading system.

-Opportunity Gain, which reflects opportunities for future diversification in entering a product line. Some products offer better links to more complex products and value chains and thereby carry higher opportunity gains. Moving towards goods which are more complex in terms of technology and know-how is associated with higher rates of future productivity.

-Product Complexity, which reflects the diversity of know-how required to make a product. The higher the product complexity, the more challenging the know-how requirements.

The AEC database for Pakistan (based on the export basket of 2023) was used toidentify products that met three conditions: (a) they are near enough to the country's existing array of products to ensure a high probability of success in initiating manufacture and exporting; (b) they offer a high enough opportunity gain for the country to anticipate a transition towards more complex goods in the future and (c) their production technologies are not so complex as to be unrealistic for Pakistan.

These filters were applied in the AEC in such a way as to only select products that have:

-a “Nearby” Distance rating no less than 2.5 (out of 5); the higher this rating, the nearer is the product to available capabilities and export clusters.

-an Opportunity Gain rating of at least 3 (out of 5); the higher this rating, the higher the likelihood of a transition to higher future productivity.

-a Product Complexity rating no more than 3.5 (out of 5); the higher this rating the more diverse and challenging the knowhow requirements.

Using the three filters in combination is a way of stretching production capabilities to take advantage of the promise of higher complexity and productivity while remaining within realistic know-how boundaries. The results are shown in Table 5.

Table 5 Products with high Opportunity Gain scores

Product Name	Code HS92	“Nearby” Distance	Opportunity Gain	Product Complexity
Motorcycles	8711	2.5	4.5	3.5
Bicycles	8712	3.5	4	3
Other plastic plates, sheets etc.	3921	3	3.5	3.5
Articles of cement, concrete, stone	6810	3	3.5	3.5
Other articles of aluminum	7616	3	3.5	3.5
Structures/parts of iron and steel	7308	3.5	3.5	3.5
Baths, skins etc.	3922	3	3.5	3.5
Other cast articles of iron and steel	7325	3.5	3.5	3.5
New pneumatic tires of rubber	4011	3.5	3.5	3
Finishing agents	3809	3	3.5	3
Other plastic plates, noncellular	3920	3.5	3	3

Source: Adapted from Top 50 Products Based on Strategy Approach accessed at: https://atlas.hks.harvard.edu/countries/586/product-table

To facilitate a deeper understanding of how the AEC tool works, Table 6 shows scores for products from the textiles sector: these are all high for Distance but low for Opportunity Gain and Product Complexity. This means that, though these products are already being exported, further expansion promises limited prospects for getting the country onto adesired trajectory of high value-added exports.

Table 6 Products with low Opportunity Gain scores

Product	**"Nearby" Distance**	**Opportunity Gain**	**Product Complexity**
Articles of yarn, rope, etc. not elsewhere classified (5609)	4	2.5	2
Synthetic filament yarn for retail sale (5406)	4.5	0.5	2
Curtains (6303)	4.5	0.5	2
Lace and net fabrics (5804)	5	0.5	2
Woven fabrics of synthetic filament yarn (5407)	5	0.5	2
Nets (5608)	4.5	0.5	2

Source: Adapted from Top 50 Products Based on Strategy Approach accessed at: https://atlas.hks.harvard.edu/countries/586/product-table

The products shown in Table 5 fall in the following sectors: ***iron and steel (HS 73), motorcycles and tractors (HS 87), plastic products (HS 39), rubber tires (HS 40) and cement (HS 25).*** For reasons discussed later (see section 3.2), we also add ***machinery(HS 84)*** to this list. The list is shown in Table 7.

Table 7 Sectors featuring complex products

Iron and Steel
Machinery
Plastics
Rubber tires
Motorcycles and Tractors
Cement

3. External competitiveness of selected sectors

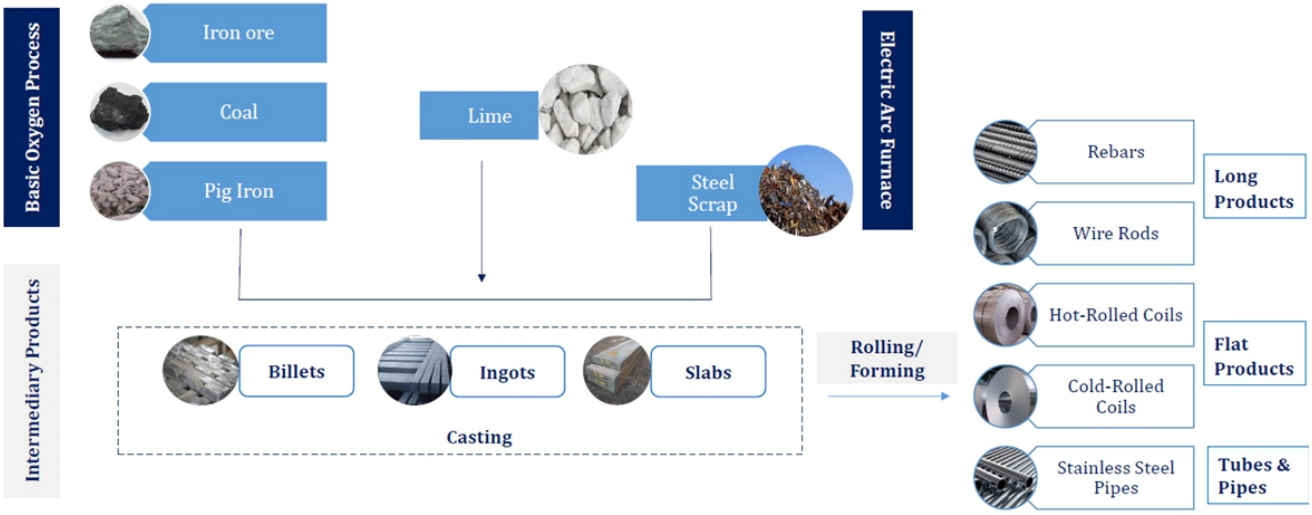
Conducting our investigation of the external competitiveness of more complex products at the level shown in Table 7 allows us to identify prospects and problems at a sector-wide level rather than for a narrow base containing very few firms in some cases. We report the main results of our sectoral investigations in this chapter. These took the form of consultations with senior management and operations staff in each sector (one hour per company) and desk reviews of relevant statistical sources and sector reports. A total of 19 interviews were conducted (see Annex 1). For the motorcycle sector, we also visited factories in Sheikhupura and Karachi.

3.1 Iron and Steel Products

Sector highlights

Iron and steel output (HS Code 73) falls into three main product categories, long, flat and tubes/pipes (see Figure 3). Long steel products are used in construction, manufacturing and infrastructure, and include items such as bars, rods, beams and rails. Flat steel products involve rolling or pressing steel into thin, flat sheets or strips, including steel plates, hot and cold rolled steel as well as coated steel. Both long and flat steel processing requires imported raw materials, steel for the former and hot rolled coils for the latter. These have had to be imported (primarily from China) since the Pakistan Steel Mills ceased production in 2015.[7]

Figure 3 Production Processes—Steel.



Source: PACRA (2024). Sector study: Steel

Exports have fluctuated over recent years but now amount to $1.15 billion in FY 2024 for the entire HS73 category including pipes, tubes, fittings and other items and structures of iron and steel. The bulk of these exports went to the US, China

7 PACRA (2024). Sector study: Steel. Retrieved from https://www.pacra.com/index.php/view/storage/app/Steel%20-%20PACRA%20Research%20-%20Sep%2724_1725624982.pdf

and countries in Europe. The sector is also a heavy consumer of imports, which amounted to $4.7 billion in FY 2024, up from $3.4 billion in 2023.

Considerations related to export potential

High energy costs are a major source of competitive disadvantage for certain iron and steel product exports. They account for just over 9% of total costs for long steel products which require furnace processing, though a more manageable 3% for flat steel products which do not. The unit price of energy (USD/kwH) is much higher in Pakistan ($0.15) than in such competitors as India ($0.10), China ($0.09), and Vietnam ($0.07).[8] This is compounded by the unreliability of power supply in the country, manifested in frequent outages.

Imported core raw materials function as a source of competitive disadvantage. Whenever the Pakistan rupee depreciates, the cost of raw materials goes up. Pakistan has seen sustained depreciation in the last ten years. According to some observers, increased domestic iron ore extraction and its local conversion into steel should be treated as high priorities over the next fifteen years.

Another source of competitive disadvantage is outdated technology. In Pakistan, long steel products are mostly produced in relatively old furnaces which are inefficient in the use of fuel and coke and produce high pollution and wastage. Some companies, like Aisha Steel, have invested in modernizing their furnaces and other processes and are reaping gains in energy and cost savings. There remains much scope for technological modernization, but this will have to be undertaken by the private sector making private decisions about costs and anticipated benefits. Improving the ease of doing business should remain a high priority for public policy. Subsidies could also be considered to the extent that some of the benefits of technology upgradation would occur in the form of lower pollution and waste which would count towards Pakistan's international climate change commitments.

Given the difficult competitive environment, success in exporting has come largely from nimble entrepreneurship and marketing. Some companies have opened offices in foreign markets, such as Canada and the USA, to procure and service orders as domestic companies. In-country presence has enabled them to build beneficial marketing relationships with key customers. This has helped offset the stiff competition offered by India and China whose producers benefit from lower energy costs and locally available raw materials. Another aspect of nimble entrepreneurship has been the close study of foreign markets and tariff structures to identify niche exports. Pakistan cannot compete in most standardized iron and steel products where scale economies are important but can compete in custom products. In today's unsettled tariff environment,

8 PACRA (2024). Sector study: Steel. Retrieved from https://www.pacra.com/index.php/view/storage/app/Steel%20-%20PACRA%20Research%20-%20Sep%2724_1725624982.pdf

especially in relation to Chinese exports, opportunities may well arise for some Pakistani products in the US market soon. A third aspect of nimble entrepreneurship lies in the use of creative financing arrangements. One company reported offering 180-day credit to its customers rather than price discounts. Since the Pakistan rupee was prone to depreciation, by the time payment was received, the rupee value of its overseas sales was high enough to compensate for the long credit term offered.

In our meetings with exporters of iron and steel products, we were also introduced to companies exporting non-ferrous metals, principally copper. Although this sector was not identified by the analytical approach used in the report, the rapid increase in exports of copper and related articles from Pakistan and the global demand forecast for such items persuaded us to acknowledge this sector (see Box 1).

Box 1 Copper

Copper and articles thereof are a fast-growing sub-segment within non-ferrous metals, with exports rising from $669 million in 2023 to $842.3 million in 2024, as per ITC TradeMap. Exports from Pakistan grew at 29% per annum in value over 2019-23 while world imports grew at 12% per annum. This indicates a growing export share for Pakistan. Given limited local supply, copper is extracted from imported "used" motors and pumps. Large-scale manufacturers engage in wholesale import of used motors while the smaller scale informal sector is confined to manufacturing copper and articles thereof. At present, Pakistan exports minimally processed copper (in the form of concentrates) to China at extremely low export per unit prices. While China imports from Pakistan at $453 per ton to Pakistan, it pays between $2,028-3,005 per ton to Chile, Peru, and Mexico. Even India is getting $1,450 per ton.Apart from refined, unrefined copper, waste and scrap, copper bar and rods are exported to China, while copper wire is sent to USA, UK and Chile and copper household articles (table/kitchen/Sanitary/Parts thereof) to Gulf Cooperation Council (GCC) countries such as Kuwait, KSA, Oman and UAE.

Copper can be used for wiring and motors in electrical equipment; roofing and plumbing; and industrial machinery. Some stakeholders feel that the export of raw copper should be stopped to promote local value addition. The highest value of copper is in equipment for renewable energy, an area attracting considerable investment across the globe. Copper is one of the cheapest ways of making sustainable energy systems, such as cables, batteries, transistors, and inverters and is required 4-6 times more intensively in clean energy systems than with fossil fuels.

Meanwhile, Pakistan has the 5th largest copper reserves in the world and has recently reinstated a mining agreement with foreign investors to exploit reserves at ReqoDiq. This site has an estimated 12.3 million tons of copper that can provide 200,000 tons of copper and 250,000 ounces of gold per annum for more than half a century. The sector has a true resource-driven comparative advantage for exports.

One issue with copper is that ores and concentrates cannot be fully used locally as adequate smelting and refining capacity does not exist. The economic scale required for smelting (350,000–500,000 tons per year) is much larger than the total output of 200,000 tons per annum expected from the Reko Diq mine. If additional copper reserves are found, Pakistan could follow the Indonesian model. Indonesia faced a similar challenge and banned the export of copper ores and concentrates to force the local downstream industry to develop non-integrated (not located on the mine) custom smelters to work with output from many mines at once, making them more cost effective. However, Indonesia had the big advantage of cheap energy through locally available oil. Pakistan does not have this advantage.But investing in the mineral processing sector can be a strategic bet for the long run due to the rising importance of energy transition materials.

9 ITC TradeMap.
10 TDAP (2022). Mines and Minerals Report: Current Situation and Future Prospects of Raw Copper in Pakistan. Retrieved from https://tdap.techsofting.com/wp-content/uploads/2023/11/Current-Situation-and-Future-Prospects-of-Raw-Copper-in-Pakistan.pdf
11 Ibid
12 Ibid

3.2 Machinery sector

Sector highlights

What is traditionally known as the iron and steel sector (HS Code 73) does not cover machinery products (HS Code 84), such as those used, for example, in the sugar, textiles, and cement industries. We did not select these products in Table 5 because their "Nearby" Distance scores were too low (far from current capabilities) and Product Complexity scores were too high (required more knowhow than currently realistic), even though their Opportunity Gains scores were high (see Table 8). However, while conducting interviews with participants in the iron and steel sector, we were guided to machinery as another example of a sector producing and exporting complex products.

Table 8 Machinery Products

Product	"Nearby" Distance	Opportunity Gain	Product Complexity
Equipment for temperature change of materials (8419)	1.5	5	5
Auxiliary parts for use with boilers (8404)	2	5	4.5
Auxiliary machinery for use with knitting and textile machines (8448)	1.5	5	4.5
Other engines and motors (8412)	2	4	4.5
Refrigerators and freezers (8418)	3	4	4

Source: Adapted from Top 50 Products Based on Strategy Approach accessed at: https://atlas.hks.harvard.edu/countries/586/product-table

Machinery comprises products that can be classified by end-use to include agricultural, construction, mining, metalworking, industrial, and heating and refrigeration equipment, from within a long list of uses. In our consultations, we focused on only two segments: industrial machines and refrigerators. This allowed us to get a sense of the overall competitive position of the sector while avoiding getting stuck in details pertinent to numerous specific end-uses.

The State Bank of Pakistan (SBP) reports exports of machinery and mechanical appliances at $178 million for FY23 and $188 million for FY24. Exports of machinery include Electrical Machinery, Specialized Machinery, and Other Machinery (including but not limited to mechanical appliances, agriculture machinery, and tobacco machinery). Most of the local demand for machinery is met through imports, which stood at $4.2 billion and $7.3 billion in FY 23 and 24, respectively. Imports include Electrical and Power Generating Machinery and a host of other machines including those for printing, laundry, and shoemaking.

9 The PACRA (2024) sector report on machinery, shows similar numbers accessed at: https://www.pacra.com/view/storage/app/Machinery%20-%20PACRA%20Research%20-%20Jan%2725_1735886694.pdf; Coverage includes HS code: 8413, 8414, 8417, 8432, 8433, 8501, 8502

Considerations related to export potential

There are several sources of competitive disadvantage for Pakistani businesses seeking to export machinery items (or engineering goods as they are sometimes referred to). The most important of these is the fact that the core raw material for machinery is imported in the form of steel (billets, sheets and coils). In some cases, this accounts for over 80 percent of production costs. In some cases, imported steel must be recast in furnaces to achieve the malleability needed to form different machines. This adds a significant energy cost as well to the process since Pakistan has higher per unit electricity charges than many competitors. However, not all machines need to go through such a process. Rolling, fabrication and assembly processes are not very energy intensive.

Other sources of disadvantage include the lack of R&D facilities, inadequate project financing arrangements, and the lack of a quality culture (one participant described the sector as having a "workshop" culture). As a result, domestic production of many machinery lines has been declining since FY20. Imports have flooded in, despite rupee depreciation, due to their higher quality.

Given these challenges, what has enabled some firms to export? ***Once again, it appears that export success has largely been due to nimble entrepreneurship. Some entrepreneurs have worked out individual paths to foreign market discovery and export success.***

Among the firms that have done well in exports are those that have emphasized knowledge-intensive aspects such as design and drawing. In some cases, the original designs and drawings were purchased or licensed from foreign firms and local engineers were trained in these. Reverse engineering was also possible in some cases because of the availability of reasonably well-trained engineers and technicians, many trained on the job or through external mentorship. On the issue of engineering skills, however, several participants noted that local universities are not producing skills of the quality and scale needed to meet evolving industry standards. Some firms have used foreign partners to good effect, buying technology and drawings from them while using their marketing networks to enter selected countries in Europe. Some have succeeded by focusing on a narrow range of products (such as wheel hubs for heavy commercial vehicles or sugar cane crushing machines or aluminum cans and so on). A narrow focus has allowed attention to quality even while production quantities have been of modest volume. This low volume/high quality aspect of Pakistani machinery exports has enabled survival in the face of competitors, such as India and China, who now prefer to operate on very large scales but can offer very competitive prices. Given the importance of niche products in export success, the sector is not dominated by large firms but features a few middle-sized firms with exports in the order of $10-$25 million each.

Refrigerators are a type of electrical machine and are therefore classified in the same two-digit HS class (84) as other machinery items. The export prospects of refrigerators and freezers are discussed in Box 2.

Box 2 Refrigerators

Annual production of refrigerator units has fluctuated between 1 million and 2 million in recent years. Domestic demand is affected by macroeconomic cycles and policies. Production fell during 2020-21 due to Covid and then again in 2023 when imports were restricted by administrative control. In the longer run, production is determined by demographic and urbanization trends as well. At present, less than half of Pakistani households have refrigerators and so there is scope for much growth.

Exports are negligible, coming in at just under $3 million in 2023. Between 80% and 85% of the value of a locally produced refrigerator is imported, including compressors and heat pumps, the two most critical components. This limits the potential for exporting since only a modest amount of value is added locally. Labor costs are only 5% of the total and hence there is not much scope for adding value and building a profit margin from this source. Export potential is also limited by transport costs. Refrigerators are bulky and take up much container space. They cannot be compressed for packing.

Pakistan mostly exports to Afghanistan because of lower transport costs relative to competitors. But this is a small and volatile market. Bangladesh is more promising, but India is competitive there. Domestic manufacturers claim that they can produce (direct cool) refrigerators at prices competitive with Indian and Chinese firms. Translating this into exports, however, is difficult because of transport costs. These could be partly offset by some government actions, such as reductions in the tax component of energy costs and improvement in domestic logistics.

Source: Stakeholder interviews

3.3 Motorcycles and Tractors

Sector highlights[14]

The automotive and parts sector covers the manufacture of automobiles (tractors, motor vehicles, special purpose vehicles, parts and accessories for tractors, motorcycles, parts and accessories for motorcycles, and trailers and semi-trailers). In this section we discuss mainly the export potential of Motorcycles (HS 8711) and Tractors (HS 8701). Tractors were not selected into Table 5 but the similarity of their production and export experience with that of motorcycles led us to include them in our discussion here. A related item, motorcycle parts, is discussed in Box 3.

14 While bicycles were also selected by our methodology, a preliminary review of sector experience showed that bicycle exports have collapsed under stiff competition from China.

Motorcycles (HS 8711)

The motorcycle industry is well established in Pakistan, with joint venture agreements reaching back more than fifty years. Major local manufacturers include Atlas Honda, Pak Suzuki, Yamaha, and United Motorcycles. While the first three are joint ventures with Japanese manufacturers, the fourth company is a fully domestic company. Over the past decade, these companies have increased local production to over 2 million units per annum. Motorcycles and parts are also exported, though at a modest scale compared to domestic sales. Prospects for exports are reasonable as some products (such as the Honda 70cc and 100cc motorcycles) have good brand recognition around the world and Pakistan has become a competitive producer over time with considerable domestic value addition.[15] The Agri-motors sector, which produces tractors and other agricultural machinery, has been exporting at a modest scale as well and has a reputation for producing good quality products in small batches.

Exports of motorcycles have risen from around $2 million in 2019 to $18 million in 2023 and are poised to rise even further. However, to date, 90% of exports have gone to Afghanistan. Overwhelming reliance on a single export market is, of course, risky as political and economic conditions could change suddenly for this market.

Together with motorcycle parts, total exports are estimated to have reached $50 million in 2023. We understand from producers that current export orders for 2025 easily exceed this value and prospects for the next few years are strong. Atlas Honda alone has plans to sell 55000 units worth $30 million in 2025.

Considerations related to export potential

Capacity: Pakistan has the capacity to gin up exports if new orders come in. Installed capacity is being used at around 80% today. The local supply chain is robust and can support exports. Still, costs have gone up because of inflation and exchange rate devaluation though the latter has improved the industry's competitiveness in foreign markets.

Cost of imports: The industry has been able to expand local content steadily. Atlas Honda reports that around 95% of motorcycle components, by number, have been localized. This is comparable to India and China. However, by value, localization is lower at 80%. Due to the lack of primary raw materials, Pakistan must import hot rolled coils, iron and zinc to make some motorcycle components.

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15 Sometimes, having a foreign joint venture partner limits the export potential of a company since the partner is unlikely to allow such competition in its existing export markets. However, over time, Honda has allowed Atlas Honda to export some models to some countries, such as the 70cc to Afghanistan. There are plans as well to export the 150cc to Africa and the Middle East.

Cost of energy: Rising unit charges and inconsistent electricity supply has been a major hurdle for manufacturers, affecting production schedules and overall efficiency. Some manufacturers have adjusted by investing in solar energy capacity, that this now accounts for 30% of their energy needs.

Competition: India and China remain major competitors in foreign markets. The competition from India in the Afghanistan market is a source of concern.

Government Policies: Government policies and support play an important role in supporting export expansion. Local manufacturers would like to see improvements in two areas. While the EFS works smoothly in general, sales tax refunds have not been processed in a timely fashion. Similarly, while exchange rate management had been consistent for many years, in 2023 there was a sudden shift to administrative control over foreign exchange for imports. This led to a sharp decline in sectoral output as manufacturers were unable to get imports in a timely fashion.

Box 3 Motorcycle parts

This box is based on discussions held during a site visit to Atlas Industrial Park (AIP), a cluster of engineering companies set up by Atlas Honda over the past twenty years to produce parts for its motorcycles and motor cars. Some of the companies in the cluster are 100% owned by Atlas Honda while some are joint ventures (JVs) with companies in Japan and China. Some of the companies specialize in dies and molds, others in plastics and still others in electrical items. The major benefit of the park to Atlas Honda is the backwardly linked vertical integration made possible by parts suppliers located on the same site. Among the parts produced in the park are chains, armatures and carburetors. Each of these is produced in partnership with a different international manufacturer located inside the AIP.

Atlas Honda has plans to ramp up exports of motorcycle parts substantially from current levels to a target of about $4 million by 2027. One advantage of having JVs with international manufacturers is that the foreign partner sometimes decides to outsource the product to the Pakistani JV because it is deeply familiar with the quality of the product and producer. This is happening with carburetors right now where the Chinese JV partner has placed big orders with Atlas Honda.

An impediment to exporting parts comes from the specialization of Atlas Honda in a few lines, such as the Honda 70cc and 100cc motorcycles. Since these are not produced elsewhere in the world there is little demand for parts specific to these models except from Pakistan and locations to which Atlas Honda has exported such motorcycles (such as Afghanistan). The exports of these items must grow before the exports of their parts can grow.

Engineering skills as a source of competitive advantage for Atlas Honda: The company relies on engineers for design, manufacturing and quality control and on contract labor for assembly line work. Engineers are hired directly into the management trainee program. Over time, on the job training and external training enhance both engineering and management skills, with about one third of the entrants moving to senior management jobs within 20 years. Among the responsibilities of the engineers assigned to various shops in the production process are shop management, quality control, preventive maintenance, customer satisfaction and inventory management for cost and timeliness. Of the 60 people hired into the management trainee program every year, 50 have engineering backgrounds. So the company hires a lot of engineers and invests a lot in their training over time. Atlas Honda does not usually hire laterally into their middle or senior management ranks.

Regarding the quality of skills available, the management felt that the challenge of recruiting good entry level engineers had gotten harder over time. Currently, they interview up to 25 graduates to find 5 suitable for recruitment. Academic assessments provided by local engineering colleges are not always accurate and soft skills are rarely stressed by such colleges. So the company has to do a lot of skill-enhancement itself through its training programs. Post-hiring attrition is relatively low, at around 2 percent.

Source: Stakeholder interviews

Tractors (HS 8701)

Sector highlights

Like the motorcycles sector, the tractors sector in Pakistan has also seen significant operations by joint ventures, particularly between Millat Tractors and Massey Ferguson and between Al-Ghazi Tractors and New Holland. Initially aimed at meeting domestic demand, such ventures have moved gradually into exports as well. Exports of tractors rose from a recent low of $15 million in 2018 to a high of $48 million in 2021 before retreating to $32 million in 2023. Exports are mostly directed at Afghanistan and some African and Middle Eastern countries.

Considerations related to export potential[16]

Over the past two decades, tractor manufacturing has built up a competitive advantage for exports through three main sources: the extent of localization of parts within Pakistan, the use of local engineering and technician skills, and the technology and marketing connections provided by foreign JV partners. As far as localization is concerned, about 85% of the parts needed in tractor manufacturing are now available locally. This insulates domestic manufacturers somewhat from currency depreciation, though the manufacturers and their parts suppliers still end up exposed to foreign exchange risk in such raw materials as engine alloys and sheet metal which are imported. As far as engineering skills are concerned, about 30% of total costs are accounted for by labor. This allows for significant addition of value through local skills, whether obtained from universities or developed through on-the-job training. Some training is provided by the foreign partners as well. Even R&D is handled locally, which is distinctive among Pakistani exporters. Finally, the JV partners have provided technology and marketing connections to enable the Pakistani firms to build an export presence in African and other markets. For all export markets, the tractors carry the foreign principal's brand (which is an advantage) but the manufacturing is carried out in Pakistan. For Afghanistan, direct exports by the local partner are allowed but profit margins are low.

There are two main areas of competitive disadvantage, high energy costs in Pakistan and stiff competition from India and China. High energy costs arise largely from the dominance of imported oil and gas as fossil-fuel sources of electricity combined with a long run trend towards depreciation of the rupee and rising taxes imposed by governments in search of fiscal stability. Competition from India and China is a fact of life in global export markets in a wide range of products. Both countries have large-scale domestic production which allow for significant economies of scale which then carry over into low export prices. Pakistani manufacturers have survived to the extent they have found export market niches where their combination of good quality and modest prices has appealed to consumers.

16 This section is based largely on the experience of Millat Tractors.

3.4 Plastics

Sector highlights

The automotive and parts sector covers the manufacture of automobiles (tractors, motor vehicles, special purpose vehicles, parts and accessories for tractors, motorcycles, parts and accessories for motorcycles, and trailers and semi-trailers). In this section we discuss mainly the export potential of Motorcycles (HS 8711) and Tractors (HS 8701). Tractors were not selected into Table 5 but the similarity of their production and export experience with that of motorcycles led us to include them in our discussion here. A related item, motorcycle parts, is discussed in Box 3.

The industry (covering HS 3920, 3921, and 3922 among others) consists of a large number (nearly 11000) of small and medium industries as well as a few large manufacturers. Demand for plastic products has grown significantly in line with a growing population, rising urbanization, and rising income. The plastic sector supplies many upstream industries such as food and packaging, agriculture, construction, telecommunications, retail chains, healthcare, pharmaceuticals, textiles and readymade garments, appliances and electronics, as well as automotive parts and accessories.

Domestic downstream sectors such as plastic recyclers, machinery, equipment and mold makers are capable of manufacturing film extruders, recycling machines, regrind crushers, and chillers ( ) Most recently, the assembly of injection molding machines (injection molding accounts for almost 60% of all plastic produced locally) has begun using imported CKD kits. At present, however, most of the machinery and molds are being imported, and because of the specific nature of the end product (bottle cap or under the hood auto parts), the process and machines will vary.[17]

Industry sources indicate that industry has attracted investment in the amount of PKR500 billion in recent years. The industry is of domestic significance now and has begun improving its export profile as well ( )). There is limited domestic capacity to produce plastic pellets and granules, which requires breaking down a crude oil product, naphtha, through a hydro-cracking process. Without a naphtha cracker to produce plastic grains, feedstock for the manufacture of plastic products must be imported and costs are tied to global crude oil prices. There are only 4 companies that produce raw material for plastic locally, and 40 per cent of total domestic plastic resin production is exported.[18]

17 https://www.sbp.org.pk/departments/ihfd/Sub-Segment%20Booklets/Plastic%20Products.pdf
18 https://www.sbp.org.pk/departments/ihfd/Sub-Segment%20Booklets/Plastic%20Products.pdf

Table 9 Sector snapshot—Plastics

Total processing units (large, medium and small)	Approx. 11000
Production capacity	745,000 metric tonnes
Domestic raw material consumption	1.5 million tonnes
Main products made domestically	PVC pipes, PET chip bottles, polystyrene, melamine
Contribution to GDP	15%
Contribution to national tax collection	15%
Domestic Investment	Rs. 500 billion
Plastic industry workforce	Direct: 500,000; Indirect: 2 million
Raw materials	Largely imported PE and PP by traders, with some domestic production of plastic raw material
Financing	No concessional support
Exports	$436 million (FY 2024)

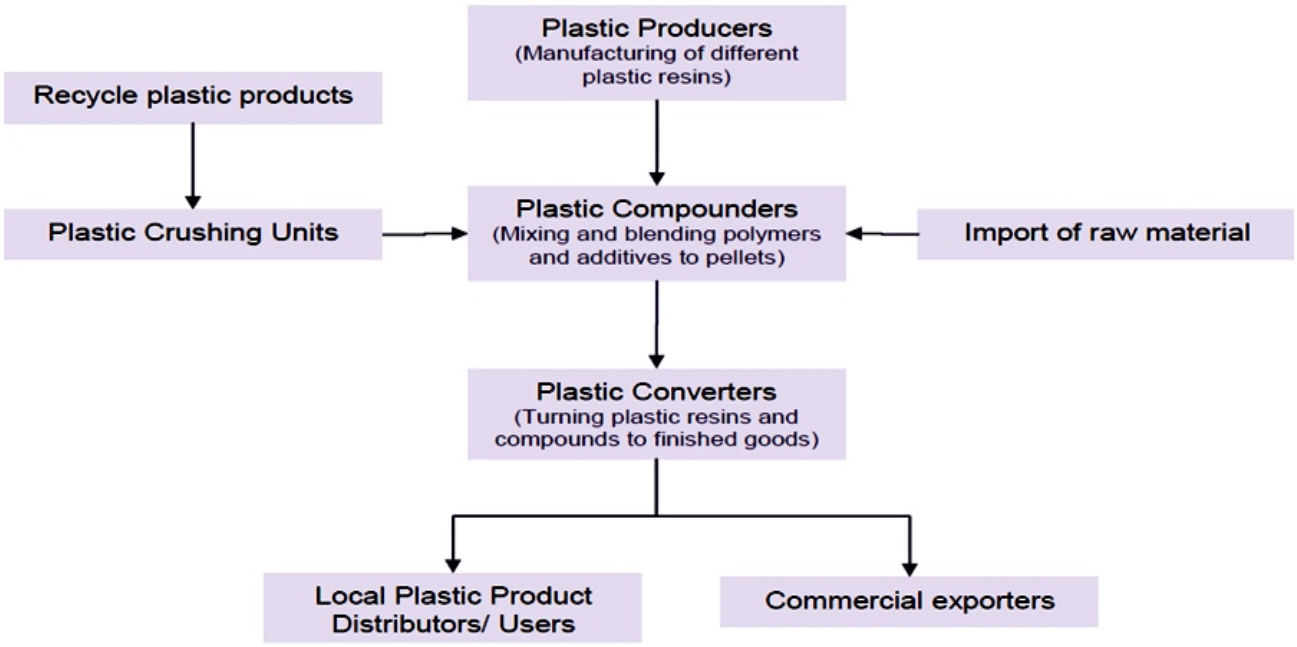
Source: PBIT (2020).

Exports have risen since 2023, from $368.4 million to $436 million in FY 2024. Half-quarterly exports for FY 2025 (Jul 24 to December 24) are $261.7 million, much higher than over the same period in 2024 ($196.3 million).[19] Exports cover items such as plastic sheets, films and plates. Imports rose from $2.2 to $2.4 billion between FY 23 and FY 24. Overall exports of HS 39 Plastics and articles thereof grew at 3% per annum over 2019-2023, whereas import demand grew at 6% per annum over the same period.[20] Major export destinations are USA, Italy, Canada and UAE.

Industry participants noted that exports could rise to $600 million in 2025. This reflects a growing sophistication in the industry and growing competitiveness despite the disadvantage of having to import raw materials (plastic pellets and granules) and rely on oil and gas to run manufacturing equipment. China and India are major export competitors.

19 The 2023 figures are from ITC TradeMap, the latest year available. Data for FY 2024 is from the SBP Data source. Retrieved from https://www.trademap.org.
20 ITC TradeMap.

Figure 4 Overview of the plastic sector



Considerations related to export potential

Raw material costs. The cost of imported raw materials (plastic pellets and granules) can be as high as 60% of the total costs of production. Without significant domestic naphtha cracking capacity, this will remain a major constraint on exports. Polyethylene (PE) and polypropylene (PP) are the main imports of this sector from GCC countries, while higher grade raw material is imported from Germany and USA.[21]

Energy costs are an important component of total costs of production, accounting for up to 25% of costs for some firms. They have recently risen to levels that now pose a threat to export competitiveness. Some large companies have built solar energy capacity to protect themselves from rising energy bills. The need to cover high energy costs restricts exports to larger industries with deeper pockets.

Working capital costs are mostly financed by the personal savings of business owners (49%) of the businesses, while commercial banks are used to meet 38% of financing needs. These costs are rising because of the recent discontinuation of a subsidy scheme under which exporters could borrow at interest charges of around 2%. Industry participants argue that such facilities should not be thought of as subsidies but as compensation to offset high energy costs and poor public infrastructure. As the plastic industry consists of mainly SMEs, they mostly utilize

[21] SBP (2020). Plastics. Retrieved from https://www.sbp.org.pk/departments/ihfd/Sub-Segment%20Booklets/Plastic%20Products.pdf

short-term funds like running finance facilities, LC limits, and finance against trust receipts. According to an SBP survey, 64 per cent of businesses cited access to credit as the most pressing constraint in expanding their business.

Taxes were at affordable levels but now rising to unreasonable levels; almost 60%. One industry participant referred to this as the nationalization of income rather than of assets.

Environmental Concerns: Rising domestic production and consumption has led to concerns about the proper disposal of plastic waste. This remains a concern even though there have been some moves towards single-use plastic products. In addition, to cut costs, some smaller firms in the unorganized sector use imported used/discarded plastic items from the UAE, which are then crushed, melted, and washed with toxic chemicals to produce items that are unsafe.

Marketing: One participant noted the importance of investing in marketing arrangements to procure and service export orders. They invested in a sales office and warehousing in the US and Canada, starting 15 years ago. This helped build credibility with local purchasers who treated them like local suppliers. They were able to get a premium price for timely delivery.

Another participant noted that their company got into exports by conducting a lot of market intelligence involving a comparison of freight costs and tariffs applicable to prominent competitors. They were able to enter some markets because Pakistan has GSP status in the EU countries and in the US whereas India and China, the main competitors, face some tariffs.

Participants noted that trade fairs and exhibitions are important venues for getting Pakistani products noticed by international buyers. A more ambitious effort by the Government to facilitate participation in trade fairs would help domestic producers, especially for engineering plastic goods that include automotive parts & accessories of plastic, in which Pakistan has some noteworthy local players.

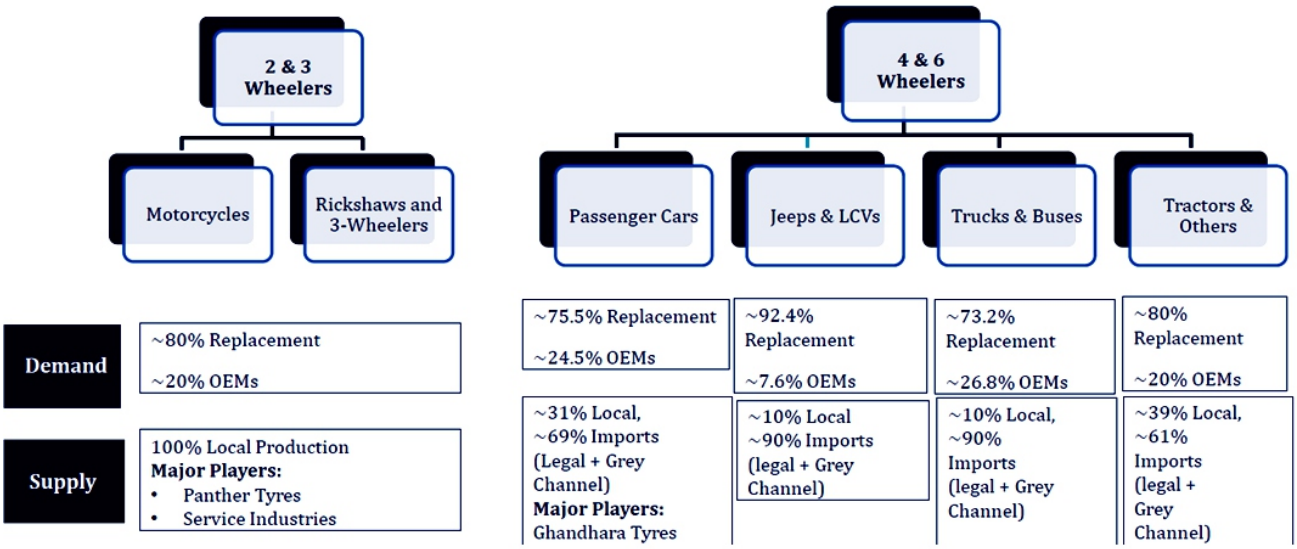
3.5 Rubber tires

We cover the export prospects of new pneumatic tires of rubber (HS 4011) in this section. In our interviews, there was some discussion about the export of rubber inner tubes (HS 4013) as well, but this is an area of low Opportunity Gain (scored at only 0.5) and was not selected by our analytical methodology.

Sector highlights

Figure 5 provides an overview of the sector, in terms of the domestic demand for tires and the corresponding supply capacity to meet that demand. The value of exports has risen in recent years from $76 million in 2022 to $92.7 million in 2023 and $110.6 in FY 2024.[22] The exports come from around four big players[23] such as Service Industries (also operating as Servis), that had a 50% share in FY23 exports, for example. Tires are manufactured using materials such as natural (14%) and synthetic rubber (27%), carbon black (28%), steel wire (14%), fibre and other chemical compounds (16%). Pakistan operates mostly in the replacement market, rather than the OEM market. There are two types of tires, radial and biased tires. A Chinese joint venture has recently enabled manufacture and export of bus radial tires to the US. Top export markets are Turkey, UAE, Egypt, and Brazil (Afghanistan is excluded as it is not a sustainable trade prospect). The 2/3-wheeler replacement market is particularly lucrative, as demand is less elastic (price sensitive) and has lower import dependency and grey channel imports than in the 4-wheelers segment.[24] The sector is growing rapidly, with average annual growth in export value over 2019-2023 of 32%, and import demand of 6% over the same time.

Figure 5 Sector overview—Rubber tires



Source: PACRA Sector study: Tires (2024)

22 State Bank of Pakistan.
23 General Tyre and Rubber Co. Ltd., Servis Tyre, Panther Tyres Limited, Diamond Tyres.
24 PACRA. Tires. https://www.pacra.com/index.php/view/storage/app/PACRA%20Research%20-%20Tyres%20-%20Oct%2724_1729509324.pdf

Considerations related to export potential

The key source of competitive disadvantage for exporting from Pakistan is the fact that 80% of raw materials (principally natural and artificial rubber and carbon black) by value is imported, mostly from China, Indonesia and Malaysia. Furthermore, energy accounts for about 10% to 15% of total costs of production. To the extent that energy consists of imported oil and gas, this too is a source of disadvantage, especially when the local currency is prone to depreciation. Labor costs are only around 5% of the total.[25] The rubber tire industry is effectively a capital-intensive industry in Pakistan.

From where do the firms that export find their competitive margins? Interviews with sector participants suggest that dedicated marketing efforts, foreign partnerships, and energy cost control have helped.

Marketing plays a critical role. Service Industries reported that, through participation in international fairs, they had eventually identified products and markets where they could compete with China and India. They realized that India was exporting branded tires at the higher end of the quality spectrum while China was active in the lower end. They identified a market niche in the middle where they could be competitive producing a tire that was much cheaper than the Indian product and moderately more expensive than the Chinese product. Their quality was in the middle of that offered by these two countries. This price/quality point was attractive to discerning buyers in Brazil and other Latin American countries and an export relationship commenced. Pakistani tire manufacturers can also benefit from GSP status. Service also derived efficiency from staying close to their major domestic product in terms of technology rather than choosing an entirely new product line for exports. This gave them adequate economies of scale in production as they could use their existing machinery and trained staff.

Foreign partnerships have helped them secure a foothold in big global markets in North America. Service Industries has a partnership with the Long March company of China through which they have sold about $45 million of truck and bus tires to the US and to Brazil. They have orders for more in 2025. In this partnership, they benefit from the anti-dumping duties applied to truck and bus tires from China which make exporting from China uneconomical. So Long March was interested in offshoring production. Service Industries approached them with an attractive joint venture arrangement under which Service produces the tires for Long March to sell in the US as a jointly branded product.

Tire manufacturers have sought to offset high and rising energy costs in Pakistan through investments in solar technology. This has reduced their reliance on oil-based electricity whose costs in Pakistan have been rising due to depreciation as well as high taxes. Some tire manufacturers now produce 30% of their energy needs from solar panels.

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25 Ibid.

3.6 Cement

Sector highlights

Cement (HS25) has been an important contributor to GDP in Pakistan, given the rise in population and urbanization in the last seven decades and the consequent increase in residential and commercial construction. However, cement exports have had a smaller and more cyclical profile.In recent years, the annual value of exports of cement (including clinker) has averaged around $250 million. It was higher in years when new opportunities for exports arose and lower when they subsided. For example, exports were higher when relations with India were better and Pakistani cement manufacturers located in the northern part of the country supplied demand from western India. Pakistani firms were competitive because much of India's cement manufacturing stock is in eastern India. Cement exports also rise when conditions in Afghanistan so permit. In addition, the domestic supply capacity of many countries has risen over the last decade. It is possible that current geopolitical events may increase demand for Pakistani cement in the Middle East as rebuilding begins in war-damaged Syria and Gaza. If so, plants located in the southern half of the country could benefit as they had in earlier years (1980-2010) when the GCC countries were going through a building phase. The GCC is not expected to be a big source of demand in the future because their building phase is largely over.

Considerations related to export potential

The key sources of competitive advantage for Pakistani exporters are the local supply of raw materials (such as limestone, silica and gypsum) and operational efficiency. The key sources of competitive disadvantage are high energy and transportation costs. The first arises from the fact that energy has a substantial import component in Pakistan, to the extent that oil is mostly imported. This makes it sensitive to global price shocks as well as to currency devaluation. Energy costs are also sensitive to fiscal policy: in recent years, higher taxes placed on energy have raised domestic energy prices as well. Fuel and power costs are reported to average 72% of total costs of production among the top 15 cement producers in Pakistan. Local manufacturers have tried to adjust to rising energy costs by shifting to solar energy as much as possible and by improving their manufacturing technology and processes. One manufacturer indicated that their energy costs of producing cement were around $4.7 a bag currently, the same as in 2005.

Pakistan is an efficient producer of the clinker category of cement. It benefits from the local supply of raw materials but also from relatively modern technology. One measure of operational efficiency is the FOB price of cement and clinker across countries in 2022 in US$ per metric ton: Japan ($38 and $37); Vietnam ($46 and $41); Indonesia ($50 and $40) and Pakistan ($54 and $37).[26] This suggests that, in

25 Pakistan Credit Rating Agency, 2024. Accessed at: https://www.pacra.com/view/storage/app/Cement%20-%20PACRA%20Research%20-%20Mar%2724_1711965357.pdf

2022 at least, Pakistan held a competitive edge in clinker exports despite relatively high energy costs.

Competitiveness is also affected by transportation costs since cement powder is a dense and heavy material. Clinker, the less processed form of cement, is somewhat lighter and less expensive to transport. Transportation costs depend both on domestic logistics and international shipping. The latter is subject to exchange rate depreciation from which Pakistan has suffered adversely during 2022-25.

Cement is unlikely to be a reliable source of export expansion. The value of exports is substantially determined by opportunities that come up episodically. Pakistan's underlying comparative advantage in having a local supply of raw materials is offset by high energy and transportation costs. Meanwhile, episodic export opportunities are unpredictable and cannot be relied upon for planning. If opportunities do arise, however, the capacity to export is available.Capacity utilization rates have varied in recent years, from a high of 94% in 2018 to a low of 55% in 2023. [26]

Table 10 summarizes the current export competitiveness (both comparative advantage and disadvantage) of firms within the prospective sectors. Broadly, entrepreneurs have had to struggle against two common constraints: having to import key raw materials and paying high costs for energy. The role of skilled labor and foreign investment has not been uniformly important but may become so in the future. In most cases, the response has come in the form of competitive advantage based on “nimble” entrepreneurship and marketing, typically by larger exporting firms.

Table 10 Summary of sources of competitive advantages and disadvantage

Sector	Sources of competitive advantage	Sources of competitive disadvantage
Iron and Steel	Nimble entrepreneurship and marketing	Cost of imported steel and coils; Cost of energy
Machinery	Nimble entrepreneurship and marketing; Local engineering skills	Cost of imported steel and components; Cost of energy
Motorcycles and Tractors	Localization of components; Local engineering skills; Technical and marketing partnerships with foreign companies	Cost of energy
Plastics	Nimble entrepreneurship and marketing	Cost of imported plastic pellets and granules; Cost of energy
Rubber Tires	Nimble entrepreneurship and marketing	Cost of imported rubber and carbon black; Cost of energy
Cement	Local supply of raw materials and production efficiency	Transportation costs; Cost of energy

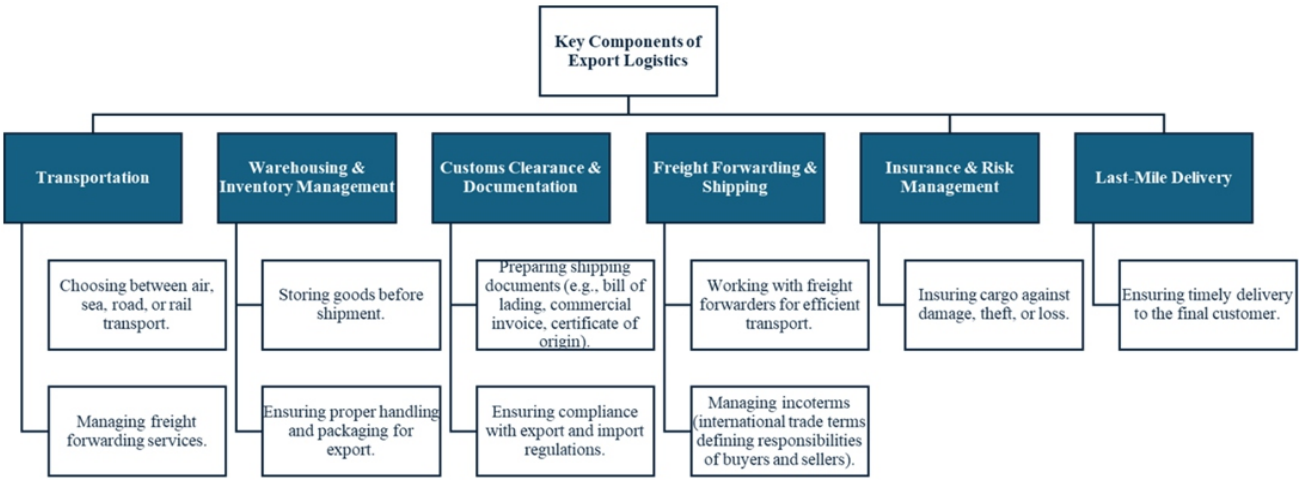
4. Assessing Export Readiness

Export readiness is the ability to meet the demands of foreign markets in terms of product quality, cost and compliance with international standards. Two key determinants of costs (apart from the supply-side factors detailed in Chapter 3) are supportive export logistics and financing. Pakistan is hampered by poor trade infrastructure as well as an overburdened and inefficient logistics sector, that contribute to weak export logistics. Similarly, there are limited export financing schemes for non-traditional export sectors. These aspects are discussed in this chapter. A broader overview of the overall cost of doing business in Pakistan is presented in Annex D.

4.1 Export Logistics

Export logistics refers to the management of the movement of goods from the point of production in one country to the destination market. Logistics is a network of services beyond transportation, including warehousing and storage, terminal operations (e.g. in ports and airports), customs brokerage, as well as data and information management(Figure 6).[27]

Figure 6 Mapping export logistics



Source: World Bank (2010). Trade and Transport Facilitation Assessment: A Practical Toolkit for Country Implementation.

There are three main reasons that Pakistan should focus on improving export logistics, namely, i. Lowering exporting costs; ii. Improving participation in global value chains; and iii. Attracting export-oriented foreign investment. Empirical evidence shows that low-income countries can enhance trade by as much as 15% if they can raise their logistics performance to the level of middle-income countries. The impact on trade promotion of improving logistics, especially in countries with a weak logistics sector, is more substantive than lowering tariff barriers in destination markets.[28] Secondly, as global value chains (GVCs) span various steps

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27 World Bank (2010). Trade and Transport Facilitation Assessment: A Practical Toolkit for Country Implementation. Retrieved from http://hdl.handle.net/10986/2490

28 Wiederer, C. K. (2018). Logistics Infrastructure Along the Belt and Road Initiative Economies (English). MTI Practice Note no. 5. Retrieved from http://documents.worldbank.org/curated/en/259561545148936579

(product development, component production, and final assembly) across various locations, only countries with the capacity to move goods across borders quickly, reliably, and at low cost are considered for GVC participation. In fact, a one-day delay to move goods across a border can cause trade to fall by an average of 1 per cent.[29] Stakeholder consultations reveal that this is a key consideration for global sourcing managers and is one of the main reasons why big global firms do not extend their procurement network to Pakistan: delays arising in Pakistan would compromise the global supply chain.

Pakistan has the highest logistics costs in the region, adding 20% to the traded value of goods.[30] In a competitive environment where countries are distinguishing themselves on the efficiency (in terms of cost and time) and reliability (in terms of data protection as well as delivery) of their logistics, Pakistan will need to improve the current export logistics ecosystem substantially if it seeks to expand its existing role in global value chains beyond a low value-added OEM component manufacturer.

Thirdly, strong logistics have become necessary for Pakistan to attract export-oriented investment. Put simply, inefficient logistics increase the cost of doing business for global firms and reduce the likelihood that the domestic market will become integrated with international market. High performance logistics allows foreign companies to work efficiently and are being used by many of our fastest-growing competitors as a tool for not only trade promotion, but also investment attraction. Pakistan can do the same to attract investment that seeks production efficiency rather than domestic markets.

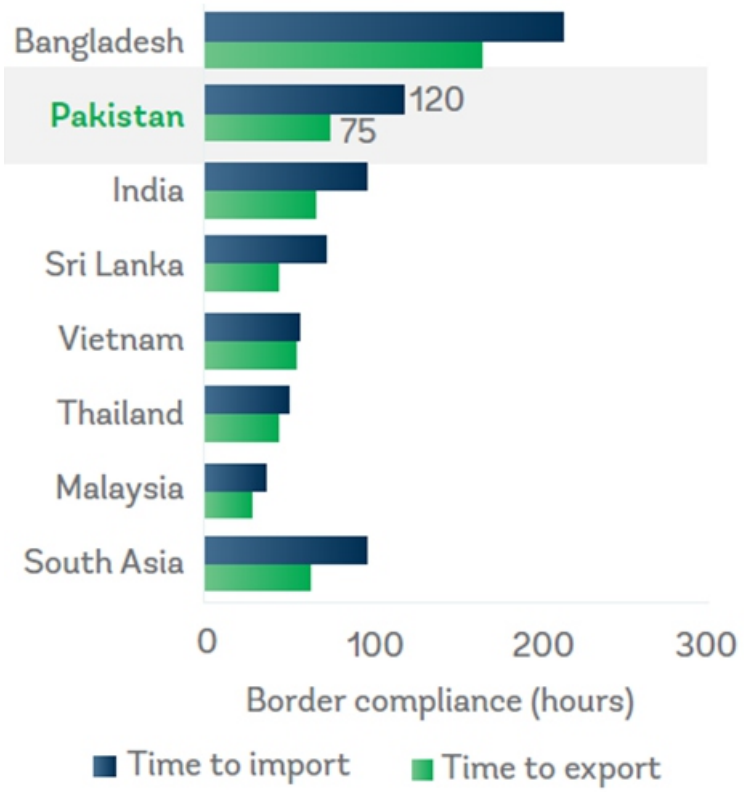
A weak logistics sector

The quality of logistics can be measured by the time, costs and documentation required for export and import processes. Pakistan fares poorly in time taken for trading across borders in comparison to India, as well as all other countries in the region, apart from Bangladesh (Figure 7).

29 World Bank (2010). Trade and Transport Facilitation Assessment: A Practical Toolkit for Country Implementation. Retrieved from http://hdl.handle.net/10986/2490

30 Ibid

Figure 7 Time to trade, regional comparison



Source: WB (2020). Modernizing Trade Policy in Pakistan.

The Trading across Borders component of the Doing Business Indicator measures both the time and cost of trade. India is ranked at 68th place compared to 111th for Pakistan (Table 8). The main costs with respect to trade include clearance and inspections required by customs and non-customs authorities as well as port/border handling. For a firm importing HS 8708 (automotive parts) from Karachi to Lahore, in 2020 it took almost 6 days and $800 to import.[31] This adds to the price of the final good that uses these imported inputs.

Table 11 Doing Business 2020: Regional comparison in Trading across Borders dimension

Indicator	Pakistan	South Asia	OECD High income	India
Trading across borders (rank out of 190)	111	—	—	68
Score of trading across borders (0-100)	68.8	—	—	82.5
Time to export				
Documentary compliance (hours)	55	74.1	2.4	18
Border compliance (hours)	58	53.4	12.5	50
Cost to export				

31 World Bank (2020). Doing Business 2020.
https://www.doingbusiness.org/content/dam/doingBusiness/country/p/pakistan/PAK.pdf

Indicator	Pakistan	South Asia	OECD High income	India
Documentary compliance (USD)	118	157.9	35.2	50
Border compliance (USD)	288	310.6	136.8	231
Time to import				
Documentary compliance (hrs)	96	100.8	3.4	22
Border compliance (hrs)	120	95.8	8.5	60
Cost to export				
Documentary compliance (USD)	130	276.7	24.9	100
Border compliance (USD)	287	504.6	100.2	273

Source: World Bank (2020). Doing Business 2020. Latest year available.
https://www.doingbusiness.org/content/dam/doingBusiness/country/p/pakistan/PAK.pdf

Regional comparison of export logistics

As highlighted above, the efficiency and cost of logistics affect not only export potential, but also attractiveness for GVC participation and export-oriented investment. The quality of logistics is measured by the time, costs and documentation required for export and import processes. The World Bank Logistics Performance Index (LPI) is another useful cross-country benchmarking tool and measures performance across 6 key indicators.[32]

1. Customs: Efficiency of the clearance process.
2. Infrastructure: Quality of trade and transport-related infrastructure.
3. International Shipments: Ease of arranging competitively priced shipments.
4. Logistics Competence: Competence and quality of logistics services.
5. Tracking & Tracing: Ability to track and trace consignments.
6. Timeliness: Frequency with which shipments reach consignees within scheduled or expected delivery times.

In the latest year for which data was available for all 3 countries (2018), Pakistan was ranked 122nd out of 160 countries, relative to China (26th) and India (44th). In 2023, while Pakistan was unranked, India and China have risen to 38th and 19th place, respectively, out of 139 countries.

Table 12 Comparison of logistics performance vis-a-vis top competitors in shortlisted sectors, 2018

	LPI score	LPI Rank	Customs score	Infrastructure score	International shipments score	Logistics competence score	Tracking & tracing score	Timeliness score
China	3.61	26	3.29	3.75	3.54	3.59	3.65	3.84
India	3.18	44	2.96	2.91	3.21	3.13	3.32	3.50
Pakistan	2.42	122	2.12	2.20	2.63	2.59	2.27	2.66

Note: Score ranges from 1 to 5, high=better. The rank is out of 160 countries. Pakistanz data was unavailable for 2023, therefore the latest year with all three countries has been taken, i.e. 2018. Source: Raw data is from World Bank LPI. Retrieved from https://lpi.worldbank.org/2018

32 World Bank (2023). Logistics Performance Index. Retrieved from https://lpi.worldbank.org/international/global

reveals that Pakistan's logistics sector is far less developed than China and India across all LPI components. To enhance its logistics performance, Pakistan should focus on:

- Streamlining customs procedures to reduce clearance times.
- Investing in trade-related infrastructure improvements.
- Facilitating the arrangement of competitively priced international shipments.
- Enhancing the competence and quality of logistics services through training and development.
- Implementing advanced tracking and tracing systems for better shipment monitoring.
- Improving the reliability and timeliness of deliveries

Performance on customs (clearance times), tracking and tracing consignments, as well as trade- and transport-related infrastructure is particularly poor. The former could be improved by continuing existing reforms that are streamlining customs and non-customs procedures. The focus should shift from digitization (achieved to a considerable extent, see Annex B) to electronic data interchange between departments. The other two constraints depend on the state of trade and transport related infrastructure, summarized below.

4.2 State of Infrastructure

Trade infrastructure encompasses the physical and organizational structures necessary for the transportation, storage, and distribution of goods and services. Key components include ports, roads, railways, airports, warehousing facilities, and logistics services and are briefly assessed below.

More than 90% of Pakistan's trade volume is routed through seaports indicating the need for a robust shipping sector. Pakistan's primary maritime gateways, Karachi Port and Port Qasim, handle most of the country's cargo. However, these ports often experience congestion due to limited handling capacities and inadequate connectivity to major highways, leading to delays and increased logistics costs. The three ports in the country, namely Karachi Port, Port Qasim and Gwadar Port have seen a decline in dry and liquid bulk as well as containers during 2023. This may be attributed to the overall economic volatility and import controls of 2023, however, compared to regional ports in Sri Lanka (Colombo) and Bangladesh (Chittagong), the trends are discouraging. Operational efficiency is also low, with a dwell time of 7 days, triple the time taken in East Asia. This affects almost all parties involved in trade, since 95% of international trade is routed through either Port Qasim or Karachi Port.

In contrast, India's major ports have undergone significant modernization, and China's ports are among the most advanced globally, featuring state-of-the-art facilities and high efficiency. Although modern, Gwadar port is not adequately connected by road or rail to the key industrial hubs of the country, making it non-functional. Foreign investment has occurred in this sector, but due to the mismatch of hard infrastructure with soft services, the reforms in the logistics

sector have not translated into better trade connectivity. The Board of Investment should expedite and facilitate the foreign investment which has been announced to improve automation and port management, along with the construction of more terminals.The first priority could be automation of port facilities such as remote cranes, advanced inspection scanners; followed by more terminals. At the same time to reduce clearance times, port tariffs should be standardizedas well as digitally integrating customs platforms with PSW.

Most inland freight is routed through roads. Pakistan has about 263,942 km of highways which carry the bulk of passenger (92%) and freight (96%) traffic.[35] But the quality of the road network is generally poor, impacting transport efficiency. Freight transport is conducted via 500,000 registered trucks and pick-ups with only a small number of large fleet operators. For the most part, the truck fleet is of poor quality. Most trucks are barely road worthy with high fuel consumption, high emissions and substantial maintenance costs. To cut their operational costs, truckers overload their vehicles leading to road damage, congestion, accidents, and damage to goods.

Similarly, Pakistan's railway system has seen a decline in its share of inland traffic, now accounting for less than 8% for passengers and 2% for freight Aging infrastructure and lack of investment have contributed to this downturn.The failure to maintain tracks and rolling stock led to the abandonment of rail and its replacement by road transport many years ago. Domestic road transport is dominated by the National Logistics Corporation, a state-owned logistics operation.The National Tariff and Logistics Policy that is expected to be implemented through the awaited National Transport Plan should address this critical bottleneck in the logistics chain. This may involve upgrading existing rail stock and track on urgent basis; developing new lines to connect manufacturing hubs to ports; and developing intermodal terminals that could promote multimodal freight. This would relieve the burden and cost of road transport that is eroding export competitiveness globally. It may also allow faster and cheaper access to land-locked neighboring countries in Central Asia, as Pakistan has an insurance and customs guarantee arrangement (such as Transports Internationaux Routiers) among some countries involved in transit of cargo.[36] Pakistan can learn from India and China. An overall comparison of trade infrastructure with India and China is presented in Table 13.

35 https://www.adb.org/sites/default/files/linked-documents/48404-002-ssa.pdf
36 World Bank (2020). Modernizing Trade Policy in Pakistan. Retrieved from https://documents1.worldbank.org/curated/en/855261578376618421/pdf/Modernizing-Trade-in-Pakistan-A-Policy-Roadmap.pdf

Table 13 Comparison of trade infrastructure

Infrastructure Component	Product	India	China
Ports	Karachi Port and Port Qasim; congestion issues; limited direct motorway access.	Major ports modernized; improved handling capacities.	Advanced ports with high efficiency; major global trade hubs.
Road Network	263,942 km road network; varying quality and maintenance.	Extensive network; significant improvements in connectivity.	Vast, well-maintained network; supports rapid economic growth.
Railways	Declining usage; less than 8% passenger and 2% freight traffic; aging infrastructure.	Extensive network; higher utilization; ongoing modernization.	Modern, expansive system; includes high-speed rail; significant role in freight transport.
Logistics Performance	Challenges in customs procedures; limited warehousing; lower efficiency.	Better logistics efficiency; improved customs and warehousing.	High logistics performance; advanced systems and infrastructure.

Source: Various.

Limited regional connectivity

Pakistan's location at the crossroads of South Asia, Central Asia, and the Middle East positions it as a regional trade hub and economic corridor. It is involved in several regional economic corridors and transport routes that could enhance connectivity and trade across Asia (Table 14). The most well-known is the China-Pakistan Economic Corridor (CPEC), a flagship project of the China's Belt and Road Initiative, with projects spanning energy, transportation, and telecommunications. It connects Gwadar Port in southwestern Pakistan to China's Xinjiang region and can facilitate trade between Europe and China. As part of CPEC, the Gwadar Port has been developed into a deep-water port that can handle large cargo shipments. Under CPEC, highways are being upgraded, such as the Multan-Sukkur Motorway, and the reconstruction of the Karakoram Highway.

Pakistan is also involved in the Central Asia Regional Economic Cooperation (CAREC) program which aims to promote economic growth and development through regional cooperation among Central Asian countries. Within CAREC, Pakistan is integral to Corridors 5 and 6. CAREC corridors 5 and 6 connect major local markets (such as Lahore and Islamabad) to each other, to neighboring countries in the north (Afghanistan, China, and Central Asian countries), and to Gwadar and Karachi ports in southern Pakistan. Corridor 5 connects Central Asia to the Arabian Sea, providing the shortest trade route between Uzbekistan, Tajikistan, Afghanistan, and Pakistan. It facilitates access to Pakistan's seaports for

landlocked Central Asian countries. Corridor 6 passes through Pakistan and extends from South Asia to the Middle East and Europe. A significant project under these corridors is the Khyber Pass Economic Corridor (KPEC), a four-lane expressway linking Peshawar to Torkham, that will facilitate trade between Pakistan and Afghanistan and, by extension, Central Asia. The project is expected to reduce travel time for heavy trucks by 40%, leading to significant cost savings. However, the scope of these regional corridors will be limited as long as they pass through Afghanistan. Pakistan also has an alternative arrangement for transit trade under the Quadrilateral Traffic in Transit Agreement (QTTA) consisting of Pakistan, China, Kyrgyz Republic, and Kazakhstan. QTTA provides an alternative route for trade such that Pakistan can access Central Asian markets via China, bypassing Afghanistan.

Table 14 Regional economic carridors

Project Name	Countries Involved	Status as of 2024
Central Asia Regional Economic Cooperation (CAREC) Corridor 5	Pakistan, Uzbekistan, Tajikistan, Afghanistan	Ongoing; specific project timelines vary.
Central Asia Regional Economic Cooperation (CAREC) Corridor 6	Pakistan, Europe, Middle East, South Asia	Ongoing; specific project timelines vary.
Khyber Pass Economic Corridor (KPEC)	Pakistan, Afghanistan	Construction of the 48-kilometer expressway from Peshawar to Torkham is ongoing.
China-Pakistan Economic Corridor (CPEC)	Pakistan, China	As of November 2024, 38 projects worth over $25 billion have been completed, with 23 projects under implementation.
Quadrilateral Traffic in Transit Agreement (QTTA)	Pakistan, China, Krygyzstan, Kazakhstan	Active; provides alterantive trade routes bypassing Afghanistan.

Note: Specific start and finish dates for some projects are not available due to their ongoing nature or varying timelines for individual components.

To summarize, Pakistan has strategic access to important international shipping routes through the Arabian Sea. Improved regional connectivity—through initiatives like the China-Pakistan Economic Corridor (CPEC), Central Asia Regional Economic Cooperation (CAREC)could help Pakistan attract export-oriented FDI and enable it to participate in global value chains (if it continues to lower costs of doing business and takes concrete steps to raise production efficiency).Pakistan should capitalize on its connectivity with the GCC, CARs, and East Asia as a unique value proposition for investors. Regional connectivity can also promote collaboration on climate change adaptation and energy transition

through cross-border projects involving renewable energy infrastructure and water management. A study by the World Bank found that improving regional integration in South Asia could increase trade by up to 2.5 times and generate substantial economic benefits.[38] This will depend on improving relations with India and Afghanistan to access key South Asian and Central Asian markets.

It is important to note that CPEC and CAREC will not be successful without addressing soft connectivity constraints, such as security concerns, inefficient border management and bureaucratic red tape. Reducing such constraints through better governance along with active trade facilitation and trade diplomacy wouldraise the export readiness of firms.Soft infrastructure includes clearing and forwarding agents, tracking mechanisms and state-of-the-art cross-border information exchange systems. Customs and border procedures are not trade friendly, resulting in higher times and costs for trade, although the Pakistan Single Window (see Box 4) is a noteworthy attempt to address issues pertaining to trade-related soft infrastructure. Other reforms undertaken to simplify the trading ecosystem or the overall cost of doing business are mentioned in Annex E. The next sub-section provides a reform framework to address these challenges.

Box 4 Pakistan Single Window

A national single window for trade was a deliverable of Pakistan's WTO Trade Facilitation Agreement and was implemented in 2021 with the launch of the Pakistan Single Window. The PSW is a unified platform for regulating trade (imports, exports or transit) in a simplified, harmonized and digitized way. All businesses involved in trade must use the PSW, which is in the process of integrating other regulatory government agencies. WeBOC, one of the most successful projects under the PRMI (see Annex E)has already migrated to PSW, which means that many of the government departments that had been integrated into WeBOC (Animal Quarantine, Plant Protection and Seed Certification) are now integrated into PSW. The Drug Regulatory Authority of Pakistan which regulates the pharmaceutical and medical devices sectors is also shifting its trade-related business processes to PSW. Similarly, PSW is also devising a new strategy to include cross-border e-commerce customs within its trade platform and has had meetings with Alibaba on how it can help SMEs in e-commerce.

1 https://www.psw.gov.pk/about; https://www.psw.gov.pk/drap; https://www.linkedin.com/posts/pakistan-single-window_pakistan-ai-psw-activity-7194638173283508224-7R8N

38 World Bank (2018). A Glass Half Full: The Promise of Regional Trade in South Asia Retrieved from https://pubdocs.worldbank.org/en/362241549390789705/Country-One-Pagers-A-Glass-Half-Full.pdf

Proposed framework for reform in the logistics sector

The logistical bottlenecks can be grouped into four interlinked reform themes:

i. Coordination and governance
ii. Regulation
iii. Infrastructure
iv. Facilitation

1. Coordination and Governance

The logistics sector is fragmented across multiple federal ministries—Commerce, Communications, Railways, Ports and Shipping, Defense (Aviation), Finance (Customs), and Interior. This institutional dispersion undermines unified policymaking and implementation capacity.[39] This fragmentation prevents timely implementation of reforms such as the Trucking Modernization Plan (2007) and the National Freight and Logistics Policy (2021).

Recommendation

- Establish a National Transport and Logistics Authority under the Council of Common Interests or the Planning Commission, with inter-ministerial coordination and oversight responsibilities.
- Empower the Logistics Cell to track and monitor reforms, coordinate donor support, and ensure alignment with the National Transport Master Plan.
- Update and enforce the implementation roadmap under the NFLP (2021), with time-bound targets and reporting mechanisms.

2. Regulatory Modernization

The enabling environment for logistics suffers from inconsistent and outdated laws, burdensome documentation, and overlapping mandates.

Recommendation

- Fast-track harmonization of transport and logistics regulations under the Pakistan Regulatory Modernization Initiative (PRMI), using the "guillotine" approach to eliminate redundant licenses, and establish an e-registry of business requirements.
- Expand Green Channel processing beyond the current 50% ceiling, based on track record-linked risk profiling.
- Formal adoption and implementation of international transport conventions (e.g. TIR, CMR) to improve intermodal connectivity and customs risk management.

39 Ul Haque, N. and Anwar, S. (2023). Transport and Logistics. PIDE Report. https://file.pide.org.pk/pdfpideresearch/rr-transports-and-logistics.pdf
40 Ibid

3. Infrastructure Development and Investment

High costs and unreliability of logistics infrastructure—especially for medium-scale industrial exporters in landlocked areas—contribute to Pakistan's poor logistics performance (ranked 111th in the World Bank Doing Business Trading across Borders sub-indicator).

Recommendation

- Identify priority logistics corridors aligned with emerging export clusters (e.g., engineering and plastics in Punjab; light manufacturing in KP) and develop multimodal hubs with last-mile linkages.
- Reduce port dwell times (currently 6–7 days) via crane automation, advanced scanning, and 24/7 port operation schedules[41]
- Promote trucking modernization via leasing and concessional loans for cleaner, safer, and trackable fleets.
- Establish logistics zones in export hubs, pairing physical infrastructure with customs facilitation and SME support.
- Improve multimodal connectivity: prioritize freight rail revival on Karachi–Lahore–Peshawar corridor, linking SEZs and ports[42]
- Use PPP models with blended finance instruments (e.g., viability gap funding, partial risk guarantees). This would help the private sector overcome the high capex needs for dry ports, warehousing, and intermodal terminals and could also de-risk/crowd investment in the logistics sector.

3. Facilitation and Process Efficiency

Logistics efficiency is not just about physical infrastructure—it depends heavily on procedural ease, digital integration, and user-friendliness.

Recommendation

- Digitize and unify port, customs, warehousing, and trade documentation through the Pakistan Single Window (PSW), ensuring full coverage for SME exporters and onboarding of key shipping and
- trucking operators.
  Enable data interoperability across relevant bodies like PSW and SECP,
- and port authorities to eliminate redundant submissions.[43]
  Adopt container tracking systems across inland freight depots.
- Implement real-time container tracking from ports to dry ports using GPS/RFID systems; could pilot intervention in Lahore and Faisalabad
- Incentivize logistics SMEs to digitize operations via tax rebates or EDF vouchers.
- Pilot coordinated border management (CBM) at land borders and dry ports.

41 ADB (2023), Infrastructure and Logistics in Pakistan

42 Asian Development Bank (ADB). (2022). Road Transport in Pakistan: Sector Assessment, Strategy, and Road Map. [Manila: Asian Development Bank].

43 Modernizing Trade in Pakistan (2020), World Bank

Having reviewed export readiness in terms of trade infrastructureand logistics, the availability of trade finance is assessed below. Trade financing includes the various financial tools and instruments that help businesses facilitate international trade by managing risks, improving cash flow, and ensuring smooth transactions between buyers and sellers.

4.3 Export Financing

Trade finance is an essential solution to facilitate trade through both finance and risk mitigation. Trade finance has a variety of solutions (products) depending on the need, transaction type and phase— such as pre- or post- production transaction and whether for import or export purposes. Many of our competitors are successfully using such trade finance tools, notably India and China, but also Bangladesh. Other countries have changed their trade finance practice to reflect the worsening global trade environment, including risks arising from trade protectionism and security issues. To support the non-traditional export sectors of Pakistan, the government may want to provide a menu of appropriate trade finance solutions that could help firms better avail export opportunities. Moreover, these can also help overcome challenges associated with business readiness and access to markets, thereby facilitating both export product and market diversification.

Trade finance can be extended by funding institutions, banks, funds or alternative financiers. Their role is to provide capital for the physical buying and selling of goods. This enables exporters and importers to conduct trade (for a particular shipment over a specified period) without facing liquidity constraints or payment delays. For most of the shortlisted sectors which are heavily import dependent for their inputs, trade finance can function as an important tool for export promotion.

Trade financing

Trade finance serves two core functions: (i) provision of liquidity at pre- and post-shipment stages and (ii) mitigation of commercial and political risk in cross-border transactions. The predominant form of export financing is lending to exporters on concessionary terms. Pakistan offers several trade financing schemes, mostly on documentary credit (LCs or advance payments) rather than open-account terms (Table 15).

Pakistan's architecture is anchored in State Bank of Pakistan (SBP) schemes—short-term working capital (EFS), long-term capital investment (LTFF), and bank liquidity (ERF)—with complementary guarantees/insurance emerging via the Export-Import Bank of Pakistan (EXIM Bank). The Export Facilitation Scheme of the FBR is not included as it seeks to lower the cost of doing business, and has been discussed under trade facilitation schemes of the government in Chapter 5. See Tables 15–16 for instrument detail and sector coverage.

As per the Export Refinance Facility (ERF), the SBP allows commercial banks to borrow from it at low interest rates to ensure that they have sufficient liquidity to

participate in export financing and offer lower-cost financing to exporters. In the Export Finance Scheme, SBP lends directly to exporters through commercial banks to ensure that firms can avail themselves of short-term credit for meeting their working capital requirements. Similarly, the LTFF is extended to exporters via commercial banks, but for longer-term financing that allows exporters to expand their production capacities and capabilities. The Export Finance Scheme is more frequently utilized as LTFF faces issues of eligibility as well as awareness.[44]

In FY 25, around PKR 14 billion has been allocated for the Export Refinance Facility, raising the total export refinance portfolio from PKR 100 to PKR 280 billion. In addition, PKR 539 billion has been set aside for the other export financing schemes of the SBP. In line with the SME Policy 2021, PKR 100 billion have been earmarked for release in FY 2025 for SME export financing.[45]

Table 15 Current trade/export finance schemes in Pakistan

Export Finance Scheme (EFS)	Administered by the SBP, it provides short-term financing to exporters at concessional rates. It is divided into two parts: The first offers pre-shipment financing for working capital needs before goods are exported, while Part II offers post-shipment financing after goods have been exported but before payment is received. This scheme is particularly popular among textile exporters.
Long-term Financing Facility (LTFF)	Managed by the SBP, it provides long-term financing at subsidized rates for the purchase of machinery and equipment. This facility is aimed at exporters looking to expand their production capacity and upgrade technology to enhance competitiveness in international markets.
Export Refinance Facility (ERF)	The SBP provides refinancing to commercial banks that offer export loans to their clients. This reduces the bank's cost of funds, allowing them to lend at lower rates to exporters.
Refinance and Credit Guarantee Scheme for Women Entrepreneurs	This scheme is specifically designed to support women entrepreneurs in Pakistan by providing financing at concessional rates, with a credit guarantee facility to encourage banks to lend to this segment. While not exclusively for export, it can support women-led businesses in scaling up for export activities.
Export Credit Guarantee Scheme (ECGS)	Managed by the Pakistan Credit Guarantee Company (PCGC) in collaboration with the SBP, this scheme offers credit guarantees to commercial banks to encourage them to extend financing to exporters, particularly SMEs, who may not have sufficient collateral.
Pakistan Export Finance Guarantee Agency (PEFGA)	PEFGA provides guarantees to financial institutions (banks and other lenders) against the potential risk of default by exporters. Providing assurance to banks enables them to secure working capital, pre-shipment financing, and post-shipment financing,
Export Credit Insurance Scheme (ECIS)	Offered by the EXIM Bank of Pakistan, it provides guarantees to exporters and their lending institutions (usually banks), ensuring that they receive payment for goods or services exported, even if the foreign buyer defaults on payment.

Data source: Various including SBP, MOC, SMEDA

44 https://www.sbp.org.pk/incen/index.asp
45 https://www.brecorder.com/news/40308211

The Pakistan Export-Import Bank was created in 2023 (Annex F) to de-risk exports through guarantees, credit insurance, and medium-/long-tenor finance alongside banks. The EXIM bank can play a strategic role in the trade financing ecosystem, but stakeholders have expressed reservations about its impact as its current lending is heavily biased towards the textile sector.

Limitations of the EXIM Bank of Pakistan

Early implementation constraints limit bank capacity to support non-traditional (non-textile, non-food) exporters. In its first phase, the Bank's products have mostly been taken up by the same traditional exporters that already borrow from commercial banks, so the portfolio is concentrated in a few familiar sectors. Because the institution is still small and building capital, it cannot yet take very large exposures on a single client or comfortably offer longer-term buyer credit in new markets—exactly the kind of support newer sectors often need. Secondly, its export-credit insurance offer is also still thin, and it has limited partnerships with global reinsurers, which means smaller credit limits for higher-risk or first-time buyers and for SMEs.

On the risk-assessment side, the Bank is still developing practical tools—such as reliable buyer databases, automated credit-limit setting, and sector checklists—so pricing tends to be conservative and banks are reluctant to discount invoices (i.e., advance cash against receivables). Lending against movable assets like invoices, inventory, equipment, or intellectual property is not yet routine either, because the legal systems and registries that make these loans easy to secure are still being put in place.

Additionally, the EXIM bank has not internally introduced mandate and success measures that are tied to diversification (e.g., (share of exposure to non-traditional HS codes, first-time exporters, new markets). This is critical if EXIM bank wants to provide trade financing solutions beyond SBP. Another overlooked point is that Pakistan has fewer correspondent-banking relationships in some countries than its peers. This raises settlement/discounting costs in some destinations and creates unnecessary delays for exporters. From a global finance perspective, environmental and social risk processes are still maturing, which slows partnerships with development financiers (that could co-lend with EXIM bank) and reinsurers who require those standards, such as ESG.

Export financing for non-traditional sectors

The textile and agriculture sectors have historically been the primary beneficiaries of export financing schemes. This focus may limit access for exporters in non-textile, non-agriculture, and non-food sectors, especially if they are small- or

46 BOP. LTTF. Retrieved from https://www.bop.com.pk/LongTermFinancingFacility

medium-sized exporters. The eligibility criteria, particularly under LTFF, which emphasize sectors like textiles, rice processing, and leather products, suggest a sectoral preference. However, the EFS does offer financing for a broader range of manufacturing goods and participation in international fairs/exhibitions (Table 16).

Table 16 Coverage of export finance schemes, by sector

Scheme	Eligible Sectors	Markup Rate (%)	Tenure	Coverage
Export Finance Scheme (EFS)	All manufacturing goods (excluding items on the negative list), services like consultancy, IT, international fairs/exhibitions	~3% p.a.	Up to 180 days (extendable by 90 days)	Short-term financing for pre-shipment and post-shipment
Long Term Financing Facility (LTFF)	Textile & garments, rice processing, leather products, sports goods, carpets & wool, surgical instruments, fisheries, poultry & meat, fruits/ vegetable processing, cereals, IT software & services, marble & granite, gems &jewelry, engineering goods, ethanol, furniture, pharmaceutical, glass, dairy sector, spinning & ginning sector	6% p.a.	Up to 10 years (including up to 2 years grace period)	Long-term financing for plant & machinery

Source: SBP. Retrieved from https://www.sbp.org.pk/incen/index.asp.

Structural reasons for sectoral bias

The concentration of credit in textiles and a few agro-subsectors is a reflection of structural factors, rather than short-term preferences, some of which are outlined below.

- Historical policy orientation: Incentives, concessional credit, and drawback regimes since the 1980s were designed around legacy value chains; LTFF eligibility still tracks earlier industrial priorities.
- Collateral and risk models: Underwriting is anchored in immovable-asset collateral and inventory norms typical of textiles; newer exporters in engineering goods, medical/surgical devices, renewables components, creative industries, and IT-enabled services present thinner track records and face higher perceived risk.
- Information and transaction costs: Limited buyer databases, weak receivables management, certification gaps, and learning costs deter first-time and SME exporters, who face higher fixed costs to adopt instruments such as factoring and supply-chain finance.

- Organized lobbying and path dependence: Well-resourced associations in incumbent sectors shape scheme design; documentation templates, audit practices, and bank familiarity remain tailored to their processes.
- Portfolio inertia: Early EXIM activity has followed incumbent bank pipelines, reinforcing sector concentration rather than re-balancing it.

Export finance schemes could be used to support non-traditional export sectors to allow for diversification of the export basket in the future. Pakistan can learn from international best practices, summarized below.

Lessons from international trade finance practice

In recent years, the global trade environment has been affected by several developments that have raised trade risk. Most recently,these include tariff hikes announced by the US that are forcing countries such as Vietnam and Cambodia to choose sides in an imminent US-China trade war. As a result, participants in trade are ever more concerned about mitigating trade risks while maintaining acceptable levels of finance.

Evidence suggests that traditional collateral requirements, lack of credit history, and underdeveloped receivables infrastructure hinder access to pre- and post-shipment finance in Pakistan.[47] This is a significant barrier for SMEs, which data reveals are extremely underbanked. Best practice in improving access to working capital indicates that movable asset lending and receivables finance are effective in overcoming these barriers.

Reverse factoring, in particular, allows SMEs to leverage the stronger credit rating of their buyer, encouraging larger anchor firms (e.g., multinationals) to participate in SME development. Movable-asset lending is also common in other countries, including India. SMEs and non-traditional sector exporters borrow against inventory, machinery, or receivables, which expands the financeable asset base.

Given Pakistan's high concentration of exports in traditional sectors like textiles and food products, expanding into non-traditional sectors requires proactive risk mitigation and access to tailored financing solutions. The following actions and activities can strengthen trade finance practice in Pakistan.

1. SBP and EXIM Bank should take the lead to create an attractive export finance environment and introduce incentives to banks and financial institutions to support exports
2. Although SMEs lack the immovable assets (property) collateral, they possess different movable assets (machines, inventory, cars, or furniture). SBP should promote movable assets finance (in accordance with the Financial Institutions (Secured Transactions) Act, 2016).

47 Criterion Quarterly. “Export Promotion: What Is Missing?” https://criterion-quarterly.com/export-promotion-what-is-missing/

3. Promote and build financial literacy and awareness among SMEs and exporters. EXIM Bank could develop sub-sector partnerships to standardize financial templates and Due Diligence checklists.
4. Insurance should be promoted as a source of finance (guarantee) and a risk mitigation tool to exporters. Insurance literacy should be handled and promoted at the same level as financing or banking products.
5. Introduce trade finance solutions or products such as

- Pre shipment finance such as purchase order finance and contract finance.
- Post shipment finance such as receivables finance, factoring and reverse factoring (supply chain finance) and value chain finance.
- Movable assets finance via the implementation of Financial Institutions (Secured Transactions) Act, 2016. This will allow SMEs to access finance against movable assets or collaterals.

6. Introduce risk sharing products that encourage trade financing and trade in general including

- Loan guarantees or credit insurance schemes
- Export guarantees
- Investment guarantees

The above would also help Pakistan address systemic structural constraints identified in recent work on export promotion: shallow credit insurance depth, limited access to reinsurance, and weak capacity for underwriting non-traditional sectors.[48] These challenges have particularly affected SMEs and firms in less-established sectors that lack both collateral and international certification, creating a cycle of exclusion from mainstream financing channels. Some preliminary instruments to de-risk private sector lending to non-traditional export sectors are indicated below.

Proposed instruments and delivery

A dedicated window within EXIM Bank of Pakistan may be created to finance non-traditional exports, including the ones identified in Chapter 3. This facility could also work in conjunction with the export financing windows proposed in the Draft Export Development Fund (EDF) Strategy 2025 (see section 5.3) via alignment between EXIM Bank, EDF, and SBP.[49] To ensure that this facility is not dominated by the already favored sectors, the funds must be ring-fenced within EXIM's portfolio. In other countries, such windows offer concessional financing through commercial partner banks with the government providing a risk-sharing facility that absorbs first-loss risk and provides premium subsidies for exporters on credit-insurance products. In Pakistan, these could be offered in partnership with

48 Criterion Quarterly. "Export Promotion: What Is Missing?" https://criterion-quarterly.com/export-promotion-what-is-missing/

49 Piracha, M. and Nabi, I. (2025). Development of a Holistic Strategy for the Export Development Fund (EDF). Report by Consortium for Development Research for Ministry of Commerce, Pakistan.

existing SBP, PCGC, or PEFGA. Another option is reinsurance by global export credit agencies or local trade insurance institutions. International models provide clear precedents. South Korea's Korea Trade Insurance Corporation (K-SURE) established in 1992 works with Korea EXIM Bank (KEXIM) to offer comprehensive export credit insurance and buyer guarantees, enabling exporters to enter high-risk or frontier markets with confidence.[50] The KEXIM-K-SURE pairing is further supported by KOTRA (Korea Trade-Investment Promotion Agency), creating a tightly coordinated trade-financing and promotion ecosystem. Notably, K-SURE has tailored products specifically for SMEs and new exporters, an approach that Pakistan could adapt by leveraging the EDF for pilot transaction-readiness grants and co-financing schemes.[51]

Key features would include:

- Simplified onboarding and documentation support to help first time exporters
- Reducing collateral requirementsfor this facility by accepting receivables and movable assets, inaccordance with the Financial Institutions (Secured Transactions) Act, 2016.[52]

The second set of instruments pertain to simplifying procedures for receivables finance and movable asset lending.

- Receivables finance (factoring and reverse-factoring): Standardize documents and enable bank-agnostic digital submission for all applications
- Movable-asset lending: A joint SBP–EXIM pilot could test working capital lines backed by such assets (like inventory or equipment) in two priority non-traditional sectors, aligned with the Secured Transactions Act and supported by the SECP Secured Transactions Registry Pakistan.[53]

Roadmap

Providing export finance to non-traditional sectors requires adjustments in the way the current schemes are designed (eligibility and collateral), targeted EDF credit enhancement to lower risk and fixed costs, and an EXIM mandate that delivers insured, receivables-based products at scale.An indicative roadmap is shared below.

- Pilot phase (0–12 months): Twosector pilots combining EXIM credit insurance + bank factoring lines + EDF premium subsidies; publish standardized templates by sub-sector and onboarding guides.
- 12–36 months (Scale): National expansion; pooled first-loss guarantees; broaden LTFF eligibility to specified non-traditional HS codes.

52 —THE FINANCIAL INSTITUTIONS (SECURED TRANSACTIONS) ACT, 2016_Updated_SECP

53 Secured Transactions Registry Pakistan's online site. Available athttps://str.secp.gov.pk/

- 36–60 months (Institutionalize): Embed non-traditional windows and guarantee structures in EXIM's standing mandate; align key performance indicators (KPIs) to diversification (new products/markets, SME uptake), not just volume of lending.

To summarize, while export financing schemes in Pakistan are accessible to a range of sectors, the emphasis on traditional industries like textiles and agriculture may pose challenges for exporters in non-textile and non-food sectors. To foster diversification and support emerging industries, it is crucial to ensure that these financing facilities are equally accessible to all sectors, accompanied by clear guidelines and awareness initiatives to encourage broader participation.

A second issue pertaining to financing, as mentioned above, was the inadequacy of Pakistan's banking relationships in several export markets; indeed, Pakistani banks had been retreating from some key markets in recent years. Habib Bank Limited and National Bank of Pakistan had shut down branches in some countries. This forced potential exporters to go through other intermediaries, a practice that raises costs. This could include a role for trade diplomacy to develop banking channels or lend in alternative currencies. Trade diplomacy and broader considerations for ease of market entry are considered in Chapter 5.

5. Ease of market entry

In addition to the factors discussed in Chapter 4, access to international markets is determined by tariff and non-tariff barriers. Trade facilitation policies, including trade agreements and export promotion support through trade missions and/or incentives also play an important role in enhancing the export potential of a sector. This section presents a strategic direction based on stakeholder input and market/tariff trends. Detailed evaluations of ongoing negotiations, product-level tariff line utilization, and in-process diplomatic efforts are beyond the scope of this study. For non-traditional exports, providing prospective markets or identifying tariff lines is not possible, because exports from these sectors are limited in nature, and at present, the outcome of nimble entrepreneurship, which cannot be generalized. Instead, the focus is on providing useful information on ease of market entry relative to the top competitors our KIIs and data have identified. The specifics of the export activity—which product, which market—is best left to the firm.

More specifically, stakeholder analysis revealed that successful exports result from a market entry strategy that identifies tariff or non-tariff advantages Pakistan can secure relative to other competitors. In line with this, the first sub-section of Chapter 5analyses the potential for expanding Pakistan's exports in the short-listed sectors by investigating our tariff advantages (if any) vis-à-vis the main competitors identified by the stakeholders in all markets, traditional and otherwise. These include the EU, North America, Africa, Central Asian Republics,

Gulf Cooperation Council states, ASEAN and Mercosur. This will help identify countries where Pakistan faces any tariff advantages relative to its competitors, and countries where there is room for negotiating better market access.

5.1 Trade Barriers

Trade barriers consist of import tariffs and non-tariff measures (NTMs).Tariffs are discussed first. The product and destination specific import tariffs for the short-listed sectors are presented below in -, along with the tariffs[54] faced by our competitors in those destination markets. Main export markets and export values are mentioned for Pakistan (in brackets in the tables), while the total value of exports in 2023 is mentioned for all countries. As per stakeholder consultations, India and China are the main competitors in the non-traditional exports sectors short-listed in the study.

Market access in non-traditional export sectors[55]

Plastics HS 3920: Plates, sheets, film, foil and strip, of non-cellular plastics, unworked

Pakistan exported $52.7 million of HS 3920 (Plates, sheets, film, foil and strip, of non-cellular plastics, unworked), whereas China exported $11.2 billion, and India exported $1.2 billion. China is the largest producer, while India was ranked 16th in world exports. As per stakeholder consultations, the biaxially oriented polypropylene (BOPP) and cast polypropylene (CPP) film production lines were commercialized in 2023, and the sector has diversified into the technology driven segment within HS 3920 rather than compete (unsuccessfully due to the presence of large global players) within the lower value-added segment that has characteristics of a commodity market.

Table 17 Market access in key markets: Tariff faced (%)& value of exports in 2023 for HS 3920: Plastics

Exporter /Market	EU	GCC	CARs	Africa	ASEAN	Mercosur	N.America
Pakistan	0% ($15.5 mn)	5% ($7.1mn)	No Exports	12.9% ($2.7mn)	6.64% ($153000)	10.9% ($2mn)	0% ($15.5mn)
India	2.8% ($241.2 mn)	5% ($88.7 mn)	8.7% ($654000)	13% ($212 mn)	4.54% ($38.7 mn)	10.9% ($36.7mn)	0% ($215.5mn)
China	6.1% ($904 mn)	5% ($294.3mn)	8.7% ($187.8 mn)	13% ($757.2mn)	1.77% ($3.3bn)	10.6% ($257.4mn)	2.3% ($882.3mn)

Note: Tariffs are minimum rates applied by the importing country and are ad valorem equivalent. The number in brackets corresponds to the exports of the reporting country to the destination market. For Pakistan as reporter country, the top export destination and export value is also mentioned. Source: ITC TradeMap

54 The tariff is the minimum rate applied by the importing country(s) and is the ad valorem equivalent tariff. Where country-wise tariffs in the market are different, an average tariff is taken. Source: ITC TradeMap.

55 All trade data in this Chapter is taken from ITC TradeMap, unless otherwise stated. The value of exports is taken using the exporting country as reporter. Data is accurate as of March 2025.

As can be seen from above, Pakistan enjoys duty-free access in the EU due to GSP Plus, vis-à-vis India (2.8%) and China (6.1%). Specifically, in the code of HS 392020, Pakistan faces 0% tariff, whereas India and China face duties of 2 to 3.5%. Similarly in Turkey, another market which players explored, India and China face 16.5% tariff on the international price, whereas Pakistan faces 6.5% tariff in Turkey. As this is on the international tariff price, Pakistan's exporters enjoy a USD 0.25-0.30 advantage over their competitors.

Rubber tires HS 4011: New pneumatic rubber tires
China is the world leader in exports of HS 4011 (new pneumatic rubber tires) with exports of $22.2 billion, or 21.6% of world exports, followed by Thailand ($7.4 billion) and Germany ($5.8 billion). Pakistan's exports have grown from $6.6 million in 2015 to $65.6 million in 2023, a ten-fold increase, with top export destinations of USA ($26.4 million), Brazil ($15.3 million) and Egypt ($7.4 million). The industry however claims that exports in 2023 were closer to around $100 million in 2023. The top export destinations have changed from Afghanistan and Turkey towards North Africa and Latin America. In the last 5 years (2019-2023), exports to Brazil and Egypt have grown from only $1 million and $1.3 million to $15.3 million and $7.4 million, respectively. One stakeholder reported that the 5-year CAGR for exports has been 14-19%, so tires are a promising sector for future export.

Within HS 4011, tires for ultra-light trucks (truck bus tires), agricultural vehicles, as well as 2-Wheelers and 3-Wheelers have been exported to USA, Latin America and North Africa. In Brazil, a Pakistani brand dominates the market for motorcycle tires. The market is large, with a total local demand of about 25 billion motorcycles, met largely through imports. China was unable to meet this demand due to an anti-dumping duty (ADD) and a firm from Pakistan was able to capitalize on this market opening for higher quality (than China) yet relatively cheaper (than India) motorcycles and bicycle wheels. It established a strong foothold in the market because the Indian tire is expensive in Brazil. A similar success story emerges for export of truck/bus radial tires to the USA, where China has partnered with a Pakistani firm to export under the domestic brand name to circumvent ADD levied by USA on China.

The sector has the capacity to produce both radial (technology intensive) and biased tires, for which the global demand mix is currently 30:70%, but which insiders feel will completely reverse in the next 10-15 years. There is no demand for radial tires in Pakistan yet, so it is a completely export-driven segment. In addition, some firms have strategically explored and created opportunities in Europe for tubeless tires as these are high profit markets (France, Spain, Portugal, the

56 PBC (2020). Pakistan and the US GSP Opportunity. Retrieved from https://www.pbc.org.pk/wp-content/uploads/Pakistan-and-the-US-GSP-Opportunity.pdf
57 Chaudary, A., Chaudary, T., and Andaman, G. Product Space: Exploring potential for higher exports in Pakistan. Retrieved from https://itc.lahoreschool.edu.pk/assets/uploads/working_papers/Working%20Paper%2013-2024.pdf

Netherlands and the UK) for which there is no demand in Pakistan. Due to the high demand in Europe (only tubeless tires are used there), this very high price product has allowed them to cross-subsidize lines in markets where price competition is stronger (e.g. in Brazil).

Table 18 Market access in key markets: Tariff faced (%)& value of exports in 2023 ($) HS 4011: New pneumatic rubber tires

Exporter /Market	EU	GCC	CARs	Africa	ASEAN	Mercosur	N.America
Pakistan	0% ($0.5 mn)	5% ($1.5mn)	–	15.4% ($8.5mn; $7.9 mn Egypt)	10.5% ($481,000; Thailand)	14.5% ($15.4 mn; Brazil)	0% ($26.4mn, USA)
India	0% ($817mn)	5% ($181mn)	8.4% ($3.2bn)	14.9% ($202.6mn)	7.7% ($153.4mn)	15.6% ($169.8mn)	4% ($820mn)
China	4.4% ($2.8 bn)	5% ($1.7bn)	8.4% ($610.6mn)	14.3% ($2.6bn)	3.5% ($1.9bn)	15.6% ($1.3bn)	4.75% ($1.4bn)

Note: Tariffs are minimum rates applied by the importing country and are ad valorem equivalent. The number in brackets corresponds to the exports of the reporting country to the destination market. For Pakistan as reporter country, the top export destination and export value is also mentioned.

Source: ITC TradeMap

To support the sector, a preferential tariff or free trade agreement should be extended to Africa, where despite facing a higher tariff (15.4% vs. 14.3%) as shown in , Pakistan has managed to successfully establish itself relatively quickly. Similarly, exports to many Latin American countries are underway (second largest market for Pakistan), while in USA, Pakistan already enjoys GSP status. However, the US continues to source truck bus tires from Indonesia and Thailand with similar 0% tariff under GSP, followed by India, which faces a tariff of 4%. Pakistan has been unable to become a meaningful supplier to the US, despite its GSP status. The untapped export potential would be substantial as US imports in this segment have grown at 22% over 2019-23.

HS 73 Articles of iron and steel

Pakistan exported $56 million of articles of iron and steel, to Japan, Australia and USA. These exports were mostly of HS 7306 Tubes, pipes and hollow profiles ($19.1 million) to Australia, Canada and Sri Lanka. Other exports include containers of iron/steel; structures or lattices; as well as table/kitchen/household articles of iron and steel. The sector has a high score on Opportunity Gain as per the identification

56 PBC (2020). Pakistan and the US GSP Opportunity. Retrieved from https://www.pbc.org.pk/wp-content/uploads/Pakistan-and-the-US-GSP-Opportunity.pdf

57 Chaudary, A., Chaudary, T., and Andaman, G. Product Space: Exploring potential for higher exports in Pakistan. Retrieved from https://itc.lahoreschool.edu.pk/assets/uploads/working_papers/Working%20Paper%2013-2024.pdf

strategy. Indeed, articles of iron and steel have the most primary connections to Pakistan's export basket in any given year and are most likely to be exported in the future.

China the largest player, in 2023, exported $98.6 billion worth of HS 73 Articles of iron and steel, accounting for a quarter of world exports. India exported $9.8 billion articles of iron and is the 10th largest exporter globally, by value. Although India and China are tough competitors, the sheer size of the global market and the number of sub-segments means that Pakistan can play to its advantages —relatively high-quality metal working skills. Pakistan faced a tariff disadvantage relative to India in ASEAN, Mercosur, and North America (Table 19).

Table 19 Market access: Tariff faced (%)& exports in 2023($) HS 73: Articles of iron &steel

Exporter /Market	EU	GCC	CARs	Africa	ASEAN	Mercosur	N.America
Pakistan	0% (4.5mn)	5% ($6.3mn; Saudi Arabia $3.1mn)	7.1% (54000; Uzbekistan)	13.3% ($1.4mn; Mauritania)	6% ($5.1mn)	14.5% ($0)	0.5% ($12.2mn, USA)
India	1.7% ($2bn)	5% ($1.4bn)	7.1% ($5.2bn)	14% ($875.4)	4.1% ($510mn)	1.5% ($160,000)	0.2% ($3bn)
China	1.7% ($10.9bn)	5% ($5.8bn)	7.1% ($1.7bn)	13.8% ($8.7bn)	1.1% ($19.1 bn)	14.5% ($2bn)	1.3% ($15.8bn)

Note: Tariffs are minimum rates applied by the importing country and are ad valorem equivalent. The number in brackets corresponds to the exports of the reporting country to the destination market. For Pakistan as reporter country, the top export destination and export value is also mentioned.

Source: ITC TradeMap

HS 84 Machinery

Pakistan exported $220.2 million of HS 84, mostly of HS 8411 turbojets and gas turbines ($41.6 mn, top destination is USA); HS 8414 air or vacuum pumps ($39.1 mn); HS 8407 spark-ignition reciprocating or rotary internal combustion piston engine ($22.5 mn); HS 8438 machinery for industrial manufacture of food/drink ($16.8 mn) and HS 8430 earth-moving equipment ($11.6mn). The export destinations were UAE, USA, Bangladesh and Iran. HS 8438 is the top export to Africa ($7.1 mn), whereas HS 8411 is the top export to the US market ($15.5mn). Pakistan has an equal or better tariff in all markets, except for ASEAN, so this could be a potential strategic bet for the economy (Table 20).

Table 20 Market access: Tariff faced (%) by exporting country & exports in 2023 ($) HS 84 Machinery

Exporter /Market	EU	GCC	CARs	Africa	ASEAN	Mercosur	N.America
Pakistan	0% ($35.3mn)	4.1% ($50.3mn; UAE $38.6mn)	3.5% (1.3mn)	6.6% ($21.3mn; South Africa $5.7mn)	3.4% ($16.3mn; Singapore)	8.2% ($627,00; Argentina)	0.1% ($22.7mn; USA 15mn)
India	0% ($5.4bn)	4.1% ($2.5bn)	3.5% ($77.6mn)	6.6% ($377mn)	1.9% ($3.7bn)	8.2% ($885.3mn)	0.2% ($6.3mn)
China	1.2% ($84.3bn)	4.1% ($17.5bn)	3.5% ($7.8bn)	6.9% ($22bn)	0.6% ($69.3bn)	8.2% ($12.7bn)	0.5% ($97bn)

Note: Tariffs are minimum rates applied by the importing country and are ad valorem equivalent. The number in brackets corresponds to the exports of the reporting country to the destination market. For Pakistan as reporter country, the top export destination and export value is also mentioned.

Source: ITC TradeMap

HS 8701 Tractors

Pakistan exported $32.8 million worth of tractorsin 2023, while automotive parts (including cars, tractors and motorcycles) amounted to another $22 million in exports in 2023. Industry experts estimate exports of auto parts as closer to $25 million. Germany and Mexico have exports of $13.9 billion and $13.4 billion, respectively. The largest demand for Pakistan's exports of HS 8701(Tractors, other than tractors of heading 8709) is in Africa, which imported $3.6 bn in 2024 globally, and imported $15.4 million from Pakistan (using Pakistan as reporter country). The highest imports were by Nigeria, Tanzania, Uganda, Botswana, Kenya and Ghana. Although Afghanistan is the largest single country import destination of Pakistan ($12.9 million in 2023), due to an already established presence and a difficult trade relationship, Afghanistan is not considered. The share of Africa in Pakistan's exports of tractors is high, accounting for almost half of Pakistan's total tractor exports to the world of $32.8 million.

At the HS 6-digit level, Pakistan's global exports are concentrated in HS 870192 (Tractors, of an engine power exceeding 18 kW but less than 37 kW). Pakistan is ranked 16th in the world by value of exports, with exports of $16.8 million. The sector holds export promise for Pakistan as almost 90% of the parts have been localized (except for the cylindrical block and the cycle head which must be imported for proprietary reasons). This has led to cost competitiveness of domestic manufacturers, and limited vulnerability to part availability and exchange rate fluctuations.

World imports of tractors with horsepower between 18-37 kW were $2.6 billion in 2023, indicating how large the global market is. The largest competitors globally within HS 870192 are Republic of Korea ($522 mn), Japan ($386 mn), India ($210 mn), USA ($199 mn) and China ($129 mn). Import demand grew at 9% per annum in value over 2019-2023 for this category. Again, Africa is the largest market of HS 870192 for Pakistan, where it ranks 9th in terms of imports by Africa, with exports of $3.4 million. Apart from Africa (where it faces same tariffs as India and China), the next largest market for Pakistan is the GCC (where it faces tariffs of 5% like India and China). Pakistan exported $2.6 million of HS 870192 to GCC market in 2023, and GCC imported $1 billion globally.

Table 21 Market access: Tariff faced (in %) by exporting country & exports 2023 ($): HS 8701 Tractors

Exporter /Market	EU	GCC	CARs	Africa	ASEAN	Mercosur
Pakistan	0% ($397,000; Poland $224,000*)	5% (384,000; Oman $206,000)	2.2-19.4% ($12000 Kazakhstan)	0-5% ($3.4 mn; Nigeria $1.4mn)	0-15% ($245,000 Malaysia)	7.2-27.4% ($0)
India	3.5% ($42.5 mn)	5% ($1.3 mn)	1.7-3.3% ($67000)	0-5% ($35mn)	0-15% (14.4 mn)	0-14% ($10mn)
China	9.5% ($127.6 mn)	5% (/$477000)4	1.7-3.3% (8.6mn)	0-5% ($16.1mn)	0% ($20mn)	0-14% ($5.9mn)
No. of NTMs faced by Pakistan	21	23	8	3	8-16	2

Note: Pakistan exports only HS 870193 (Tractors, of an engine power > 37 kW but <= 75 kW) to the EU 27, which imported $2.3 billion worth of this product in 2023. Tariffs are minimum rates applied by the importing country and are ad valorem equivalent. The number in brackets corresponds to the exports of the reporting country to the destination market. For Pakistan as reporter country, the top export destination and export value is also mentioned.

Source: ITC TradeMap

Currently, (Table 21) shows that Pakistan faceseither the same (GCC and Africa) or worse tariffs (CARs and Mercosur) than India and China.It has a tariff advantage in the EU, as exports are duty-free, compared to India (3.5%) and China (9.5%). In terms of prospects for HS 8701, although global imports stood at $85 billion, the import demand was from other categories than those exported by Pakistan, again underscoring the importance of Pakistan occupying a niche within a non-traditional export space, where it can compete at low volumes. Global demand is concentrated in road tractors for semi-trailers with diesel/semi-diesel engines (HS 870121; $47.2 bn) and tractors of greater horsepower. Nevertheless, the niche of tractors of an engine capacity lying between 18-75 kW (Pakistan's top two exports) had a combined import demand of $8.6 billion in 2023, which represents a high opportunity canvas for Pakistan.

It is interesting to note that Pakistan does not have any trade agreement with Africa, whereas India and China not only have numerous trade agreements, but also strong diplomatic relations and commercial presence in the African continent. The components in the tractor sector are categorized by technology, so the same components can be used in other tractors as well as in earth moving machinery. This creates considerable potential for the export of components. For example, one firm mentioned exporting engine assemblies to UK, France and Australia, whereas parts were sent to France.

HS 871120 Motorcycles

Total exports of motorcycles (HS 8711) rose from $5.4 million in 2015 to $18.2 million by 2023. Exports were concentrated in the segment of motorcycles in the 70cc engine capacity (of $17.9 million). ITC TradeMap reports an estimated untapped export potential of $8.5 million for Pakistan, and Pakistan ranks as the 21stlargest exporter by value. China was the top exporter, with a 45% world export share in 2023, and exports of $5.5 billion. India's exports were $2.1 billion, and it is ranked 2nd in the world with a 17% world share.

Table 22 Market access: Tariff faced (%) by exporting country & exports($) HS 871120: Motorcycles(70cc)

Exporter /Market	EU	GCC	CARs	Africa	ASEAN	Mercosur	N.America
Pakistan	0% ($2000, Italy)	5% ($15000, UAE)	13.6% ($179,000)	16% (153,000; Kenya)	26.2% ($0)	21.6% ($0)	0% ($6000; USA)
India	8% ($41.6mn)	5% (63000)	16.3% ($8000)	15.3% ($685.9mn)	23% ($163.4mn)	21.6% ($143.6mn)	0% ($67mn)
China	8% ($291 mn)	5% ($165,000)	16% ($68.4mn)	16.1% ($1.4bn)	19% ($507.2mn)	21.6% ($654mn)	5.5% ($1.7bn)
No. NTMs	6	–	18-21	Up to 8	0-196	–	–

Note: Tariffs are minimum rates applied by the importing country and are ad valorem equivalent. The number in brackets corresponds to the exports of the reporting country to the destination market. For Pakistan as reporter country, the top export destination and export value is also mentioned.

Source: ITC TradeMap

Pakistan's top export destination was Afghanistan, at $17.6 million. The industry is now growing its presence in Africa through targeted marketing strategies, as well as the GCC. Despite a 16% tariff in Africa, Pakistan began exporting to Kenya over the last two years.

Pakistan faces better tariffs for motorcycles in EU andCARs, the same in GCC, Mercosurand North America and worse than India in Africa and ASEAN (Table 22). This indicates scope for exporting to CARs, and stakeholders have started the

process of registering in some countries of the region. Unfortunately, the 70cc model is not popular in the EU or North America. Delivery hailing services use motorcycles intensively in Africa, but Pakistan faces multiple disadvantages there relative to India, including higher tariffs, and absence of distribution channels and local sales presence.

In terms of NTMs, the toughest market is ASEAN, followed by CARs, Africa and the EU. NTBs in the EU market pertain to Product quality, safety or performance requirement and Certification requirement to show conformity with regulation. In CARs, the import regulations cover Labelling requirements; Product quality, safety or performance requirement; Testing requirement (sampling test); Conformity assessment related to Technical Barriers to Trade (TBT), n.e.s. and non-automatic import-licensing procedures other than authorizations covered under SPS and TBT chapters. Pakistan has no exports to ASEAN region, but NTMs range from 0 in Malaysia to 196 in Vietnam. Finally, in terms of quantity restrictions, while certain countries in Central Asia (Uzbekistan) and Africa (South Africa) impose anti-dumping duties, this is more likely for low value-added commodity type goods (plastic resin or cement), rather than the proposed value-added products.

To summarize, Africa emerges as a natural trade vent for many of the non-traditional export sectors proposed, but India and China face three key advantages, namely large global exporters that have an established marketing and distribution presence. The strong performance of Pakistan despite these incumbency advantages available to India and China indicate a future role for well-negotiated trade agreements in African countries. In the GCC, CARs, and Latin American markets, all three countries face the same tariffs, whereas in ASEAN, China fares much better. Finally, in the most established traditional markets of Pakistan, the EU and US, where Pakistan enjoys preferential duty-free access (especially on non-traditional exports) not afforded to China or India, Pakistan has been unable to convert access into exports. This may be due to other factors such as regulatory requirements, which are discussed below.

Market Access Opportunities Amid Global Tariff Adjustments

While the longer-term outcome of U.S. trade tensions with countries like India remains uncertain, Pakistan may benefit from a narrow window of preferential market access, especially in key product segments where Indian exporters face heightened tariffs. The motorcycle, plastics, and iron and steel industries could potentially gain traction in the U.S. market over the next 6 to12 months, provided entrepreneurs move quickly to capitalize on short-term arbitrage created by trade disruptions. This aligns with past observations of Pakistani firms' ability to respond nimbly to external trade shifts, as seen in prior GSP+ gains.

Specific bilateral market access windows—like the one temporarily opened due to US–India friction—create targeted entry points. Coupled with logistics and

regulatory improvements discussed in preceding chapters, Pakistan's exporters could potentially convert these windows into longer-term footholds.

5.2 Regulatory Requirements

Market entry is also determined by regulatory requirements. Exporting requires firms to meet several regulatory requirements, including obtaining necessary licenses, adhering to export control regulations, maintaining accurate records, and ensuring compliance with destination country regulations, all of which are crucial to ensure smooth trade. These are termed Non-Tariff Measures (NTMs), defined as all policy interventions other than tariffs that can potentially affect the quantities and the prices of internationally traded goods.[58]

While these regulations are generally consistent across exporting countries, variations can occur based on bilateral trade agreements, compliance histories, and geopolitical factors. Although non-tariff barriers are not Pakistan specific, due to the limited progress made in overcoming them over the last two decades, Pakistan is less competitive vis-à-vis competitors. In addition, the rise of new non-tariff measures in the form of environmental and social governance (ESG) standards, are fast becoming critical to access Western markets. For Pakistan, adopting such standards could help reduce carbon emissions costs, maintain access to key export markets, and diversify its export portfolio.

Non-traditional markets in Africa, Central Asia and Mercosur impose less strict regulatory barriers. In many of the short-listed sectors, Pakistan is benefitting from the technical expertise and high standards for quality and safety of the principal firm, from which they have either licensed or acquired the engineering drawing/design. Therefore, meeting sanitary and phytosanitary standards is not a problem, as noted by stakeholders. However, proving this, i.e., conformity assessment and verification procedures pose a high cost and time burden on firms. A large number of firms, and a sub-set of their associated vendors can however also demonstrate compliance to global standards that pertain to their sector. This bodes well for exports to non-traditional markets. Once the initial process of complying with local standards in GCC, African or Latin American countries is undertaken, the remaining regulatory requirements are standard, and much less stringent, than for agricultural and textile products.

In this study, the emphasis has not been on products, but rather value chains. As regulatory requirements vary across the short-listed sectors, it would not be feasible to discuss them without narrowing them down to the 6-digit HS code. However, the main requirements are broadly categorized as[59]

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58 WTO (2019). A Practical Guide to the Economic Analysis of Non-Tariff Measures. https://www.wto.org/english/res_e/booksp_e/non_tariff_measures_e.pdf

59 MacMap. Regulatory requirements. Retrieved from https://www.macmap.org/en/query/regulatory-requirement?rtype=I&level=6&reporter=276&partner=699&product=870192

- Authorization requirement for importing certain products
  Product quality, safety or performance requirement: Compliance with international standards such as ISO (International Organization for Standardization) or specific regional standards like CE marking in the European Union.
- Labeling and Documentation: Proper labeling of products, including information on composition, usage instructions, and safety warnings, along with necessary documentation like certificates of origin and conformity assessments
- Certification requirement
- Prohibition for non-economic reasons
- Prohibition for the protection of environment: Adherence to environmental standards, including restrictions on hazardous substances and requirements for recyclability.

India and China, as major competitors, often have established mechanisms to navigate these regulatory landscapes, benefiting from bilateral and multilateral trade agreements that may offer not only reduced tariffs, but also simplified compliance procedures through an economic partnership arrangement. Both countries also have a more robust compliance Infrastructure with established testing and certification bodies that ensure products meet international standards before export. Stakeholders also felt that active governmental assistance was provided in both countries to help firms understand and meet foreign regulatory requirements, including subsidies for compliance-related expenses. Pakistan needs support from the government to strengthen the compliance infrastructure, for example more accredited laboratories (Pakistan National Accreditation Council and international) as well as a greater number of certification bodies to facilitate compliance with international standards.

5.3 Trade Facilitation

Trade facilitation refers to all those measures which can reduce the cost of trading across borders. Trade facilitation aims to simplify and streamline international trade procedures to reduce costs and time, making trade more efficient and transparent across borders. The section below provides an overview of recent measures to make trade easier. Currently, Pakistan's trade facilitation efforts for non-traditional sectors involve a combination of duty exemptions, tariff concessions under trade agreements, and initiatives to attract foreign investment. These are discussed below.

Export facilitation schemes

A variety of export facilitation schemes have been introduced over the years, including the Manufacturing Bond Scheme (SRO 450 (1)/2001), Duty and tax remission for exports (DTRE) and others (Figure 8). The overall share of these schemes schemes was estimated to be around 37% of all exports in 2019,

much lower than the average utilization rates in regional countries.[60]

The Export Facilitation Scheme, SRO 957(I)/2021 was subsequently launched to address eligibility, information, and access issues. The Scheme has a wider scope of application, a more flexible timeframe as per exporter category, and no export targets. Manufacturers, direct vendors as well as toll manufacturers are eligible for the Scheme. The scheme significantly simplified the cost of tax compliance and made it easier for firms to benefit from the existing schemes. It was to run in parallel with existing schemes and eventually replace them by 2023.[61][62]

The Enhanced Export Facilitation Scheme 2022 further consolidated all existing schemes under a single unified procedure via single window (PSW), reducing the documentary burden of compliance, while automation under the same has lowered the cost and time of trading considerably.

In addition to these schemes, the government had previously extended zero-rated facility to five key export sectors, i.e., textiles, carpets, sports goods, surgical, and the leather industry. Registered exporters did not pay sales tax on local supplies of commodities, raw materials, components, parts and plant & machinery under the Export Facilitation Scheme. A phased transition to market-linked interest rates should be considered for all Export Facilitation Schemes as Pakistan's fiscal space will continue to be restricted in the foreseeable future. This would make such schemes more cost-effective and financially sustainable for a government that collects about 10% of its GDP in taxes, compared with the Asia & Pacific average of 19.3%.[63]

Figure 8 Key Export Incentive Schemes and Regulatory Mechanisms in Pakistan

Manufacturing bond scheme	• Provides warehousing facility for duty-free import of inputs for subsequent export of value-added products (without payment of import duty, sales tax, FED, WHT on import of raw material) • Up to 40% of manufactured goods can be sold locally if they pay duties and taxes
Duty and tax remission for exports (DTRE)	• Refund of import duty, sales tax, FED, WHT on imported inputs • Refund of import duty, sales tax, FED, WHT on local inputs • Refund of duties on taxable/excisable services like gas, electricity, diesel, furnace oil and coal

60 https://tdap.gov.pk/wp-content/uploads/2022/04/Export-Facilitation-Scheme-EFS-2021-final-1.pdf
61 https://tdap.gov.pk/wp-content/uploads/2023/03/final-Pakistan-Trade-Perspective-Oct-Dec-2022-23.docx
62 https://www.wto.org/english/tratop_e/tpr_e/s424_e.pdf
63 https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-tax-revenues/revenue-statistics-asia-and-pacific-pakistan.pdf

Export oriented units (EOU)	• Custom-duty and tax-free import of raw materials • Duty-free and tax-free import of P, M & E, capital goods & apparatus used to manufacture exports (sell at least 60% of annual production) • Regulatory Authority issues license to declare manufacturer-cum-exporter as an EOU to avail benefits, subject to Analysis Certificate
Temporary importation scheme	• Exemption of duties and taxes for the import of accessories used for manufacture of exportable goods. • Duty-free import of components and sub-components for assembly of surgical instruments meant for exports
Export processing zones	• Facilities to establish EOUs, upgrade tech & skills, attract FDI. • Duty- and tax-free import of machinery, equipment, materials. • Local sales of up to 20% are allowed. Investors can use vendors in the tariff area
Statutory regulatory orders	• Various, sector-wise

Source: PBC (2022)

The government has also created several online portals to facilitate trade by providing comprehensive information and streamlining processes for exporters and importers (Table 23).[64]

Table 23 Trade facilitation portals of Pakistan

Portal	Function
Trade Information Portal of Pakistan (TIPP)	TIPP provides a single access point for all cross-border trade-related information. It hosts over 530 laws, regulations, procedures, and other trade -related measures from more than 77 government agencies, offering businesses detailed guidance on applicable fees, processing times, and step-by-step procedures.
Pakistan Trade Facilitation Portal (PTFP)	The PTFP serves as a centralized resource for trade-related information, covering customs regulations, import and export procedures, and required documentation. It aims to enhance transparency and efficiency in trade operations.
Pakistan Trade Portal	Managed by the TDAP, this portal functions as a B2B platform, connecting Pakistani exporters with global buyers. It offers insights into various products and services, promoting international trade opportunities.
Pakistan Single Window (PSW)	PSW is an integrated digital platform that allows stakeholders to submit standardized information through a single-entry point to fulfil import, export, and transit-related regulatory requirements. It aims to reduce the time and cost of doing business by digitizing Pakistan's cross-border trade and eliminating paper-based processes.

Source: World Bank (2021). Pakistan Development Update. Reviving exports.

64 World Bank (2021). Pakistan Development Update. Reviving exports. Retrieved from https://thedocs.worldbank.org/en/doc/4fe3cf6ba63e2d9af67a7890d018a59b-0310062021/original/PDU-Oct-2021-Final-Public.pdf

Investment promotion activities

While the primary focus of this study is on export promotion, particularly for non-traditional sectors, the relevance of investment policy and facilitation cannot be overstated. A robust investment climate—especially for value-added manufacturing and service sectors—is a prerequisite for building the productive capacity and supply-chain resilience needed to expand and diversify exports. Vietnam's transformation into a high-tech manufacturing exporter was underpinned by strong FDI frameworks that attracted electronics and smartphone supply chains (e.g., Samsung, Foxconn), with targeted incentives and investor facilitation zones. Similarly, Costa Rica's success in becoming a hub for medical devices and high-value services stemmed from investor aftercare services and SEZ reforms led by CINDE, its investment promotion agency (IPA). Such examples illustrate how aligning investment policy with export goals—through targeted incentives, regulatory streamlining, and public–private coordination—can build the foundations for export growth beyond traditional sectors. In our context, strengthening the investment–export nexus through strategic alignment of BOI and TDAP efforts can help bridge the capability gaps in Pakistan's non-traditional export sectors.

Pakistan's investment facilitation ecosystem has already undergone promising reforms under the Pakistan Regulatory Modernization Initiative (PRMI), led by the Board of Investment (BOI) since 2019.[65] A planned Pakistan Business Portal (OSS) is being funded by the World Bank Digital Economy Enhancement Project (DEEP) (see Annex E).As an attractive foreign investment destination, local firms from non-food, non-textile sectors may find it easier to enter JVs with MNCs or acquire licenses from their buyers.However, global best-practice suggests that a modern investment promotion agency must go beyond facilitation to act as a strategic matchmaker, creating investor pipelines, enabling linkages with domestic firms, and coordinating across trade and industrial policy. Insights[66] from leading IPAs could be useful in building the capacity of BOI beyond the administrative modernization currently underway (see Box 5).

65 https://business.gov.pk/about-prmi/

65 For example, ProColombia: sector-specific investor targeting and aftercare; Invest India: personalized investor hand-holding with sector desks; Singapore EDB: integrated approach to FDI, innovation, and trade incentives.

Box 5 BOI Reform: From Administrative Modernization to Strategic Transformation

Pakistan's Board of Investment (BOI) has taken welcome steps toward administrative modernization, notably under the Pakistan Regulatory Modernization Initiative (PRMI).1 These interventions improve transparency, reduce compliance time, and facilitate first-entry for investors. These reforms are necessary to address historical inefficiencies and regulatory complexity. However, they represent first-generation IPA functions that IPAs in our best competitor countries achieved 10-15 years ago.2 Pakistan must now move to Phase 2 reforms that redefines BOI's role from a passive registry and advocacy function to a deal-making, investor-servicing, and ecosystem-shaping agency.

Top-tier investment promotion agencies (IPAs) such as Singapore's EDB, KOTRA (Korea), Invest India, and ProColombia act as strategic agents of economic transformation. Their mandates include investment generation, aftercare, value-chain development, and targeted non-traditional export promotion. They serve as "whole-of-government conveners" for national competitiveness.3

To align with this model, Pakistan's BOI requires deeper reforms: a mandate upgrade, outcome-based KPIs (e.g., for FDI-linked export diversification), tighter integration with TDAP, EXIM Bank, and the Export Development Fund (EDF), and dedicated sector desks for priority industries. The new Investor Information Management System (IIMS) provides a promising foundation to embed these functions across the full investment lifecycle.

Reform Stream	Description
Phase 1: Operational Reforms	Digitization, transparency, PRMI, OSS, IIMS, business-environment cleanup
Phase 2: Strategic Reforms	Mandate redesign, investor aftercare, value-chain targeting, sectoral focus

1. Government of Pakistan, Pakistan Regulatory Modernization Initiative (PRMI), Board of Investment. See also USAID Business Enabling Environment Activity.
2. OECD (2021), Investment Promotion Agencies in the Time of COVID-19. Retrieved from: https://www.oecd.org/investment/investment-promotion-agencies-in-the-time-of-covid-19.htm
3. UNCTAD (2022), World Investment Report: International Tax Reforms and Sustainable Investment. Case studies include EDB (Singapore), KOTRA (Korea), and Invest India. See also: World Bank (2020), Global Investment Competitiveness Report.

Export Development Fund

The Export Development Fund (EDF) is Pakistan's dedicated vehicle for financing export-enabling initiatives, originally created to use the Export Development Surcharge (EDS)—a 0.25% levy on export value introduced in 1991—to support projects that raise competitiveness, market access, standards, and innovation. Historically run as an attached wing of the Ministry of Commerce, the Fund has recently been notified as an autonomous entity under its own Act and the Public Finance Management Act, with the Finance Act 2022 requiring that the full EDS

be deposited directly into EDF's public account at the State Bank of Pakistan. In parallel, EDF has begun digitizing proposal intake, record-keeping, and monitoring, and has signed a data-sharing MoU with Pakistan Single Window to improve transparency and real-time reconciliation of EDS inflows. The EDF Draft Strategy 2025[67] sets out a refreshed vision and mission developed with stakeholders, introduces a monitoring and evaluation framework with concrete KPIs (e.g., turnaround times, fund-utilization and sectoral balance), and organizes delivery through thematic financing windows—including an Export Credit & Insurance window with SBP and EXIM Bank. Other finance windows cover standards/compliance, firm-level product development, export marketing, and capacity building of trade associations. Past operational frictions—slow approvals, procurement burdens, and communication gaps—have delayed disbursements, especially for SMEs. The new Draft Strategy proposes streamlined, digital processes. These changes are intended to shift EDF from reactive event-funding toward proactive, evidence-driven support for diversification, especially for SMEs and non-traditional export sectors.

Trade support considerations

The Trade Development Authority of Pakistan (TDAP) is the main export promotion and marketing agency in Pakistan. It extends trade support to businesses across the country. Funding for participation in trade fairs was the most common trade support function, cited by industry. While it has a limited role in providing trade/market intelligence (which ideally should be its only role) due to inadequate funding and little in-house capacity, it has taken other steps to promote the non-traditional manufacturing sector. Industry has indicated that the recent batch of trade attachés from TDAP are of much better quality with sector-specific knowledge. This was a result of market-based hiring which has allowed them to expand their services.[68]

The majority of exporters receive limited support from TDAP, both due to gaps within the TDAP mandate and its capacity (see Box 6). It is not at par with global trade promotion agencies, which are extremely proactive in the support offered domestically and abroad (see table below).

67 Piracha, M. and Nabi, I. (2025). Development of a Holistic Strategy for the Export Development Fund (EDF). Report by Consortium for Development Research for Ministry of Commerce, Pakistan.

67 World Bank (2021). Pakistan Development Update. Reviving exports. Retrieved from https://thedocs.worldbank.org/en/doc/4fe3cf6ba63e2d9af67a7890d018a59b-0310062021/original/PDU-Oct-2021-Final-Public.pdf

68 World Bank (2021). Pakistan Development Update. Reviving exports. Retrieved from https://thedocs.worldbank.org/en/doc/4fe3cf6ba63e2d9af67a7890d018a59b-0310062021/original/PDU-Oct-2021-Final-Public.pdf

Table 24 Trade promotion agencies at a glance: TDAP vs. Leading TPAs

Feature / Function	TDAP (Pakistan)	KOTRA (S. Korea)	Enterprise Singapore	ProColombia
Parent Ministry	Ministry of Commerce	Ministry of Trade, Industry & Energy	Ministry of Trade and Industry	Ministry of Commerce, Industry, and Tourism
Core Functions	Trade fairs, delegations, marketing	Exporter services, FDI facilitation, diagnostics	Capability building, SME scaling, innovation	Export promotion, FDI, tourism
Financial Instruments	None (not linked to credit tools)	Coordinates with K-SURE and KEXIM Bank	Coordinates with ESG financing programs	Supports financing via Bancóldex
Digital Platforms	Limited	Full-service exporter portal + virtual offices	GoBusiness portal for SMEs	Online B2B platforms and training
Export Readiness Programs	Minimal	Exporter training clinics and 1:1 consulting	Startup scaling, industry matching	Sector-specific accelerator programs
KPIs/Performance Metrics	Not publicly tracked	Tracked and reported annually	Yes, tied to national trade goals	Yes, sectoral and geographic metrics
Sector Prioritization	Traditional (textiles, rice, leather)	Tech, EVs, biohealth, ICT	Advanced manufacturing, fintech, agri-tech	Creative industries, value-added agro -exports
Reform Status	Under consideration (STPF, EDF)	Mature agency with global benchmarks	Constantly evolving with digital economy	Modernized and globally integrated

Box 6 Reforming Trade Development Authority of Pakistan (TDAP)

The Trade Development Authority of Pakistan (TDAP) operates under the Ministry of Commerce and is Pakistan's apex trade promotion agency. It is responsible for:

- Organizing participation in trade fairs and exhibitions
- Hosting trade delegations
- Facilitating exporters with limited marketing resources
- Administering some disbursements of the Export Development Fund (EDF)

TDAP also acts as a liaison between the government and exporters, especially in sectors such as textiles, rice, leather, and surgical instruments. However, the bulk of its activities have remained event-focused, and it has struggled to evolve into a strategic trade facilitator.

Gaps

Multiple evaluations from organizations like the World Bank, PIDE, and independent think tanks have flagged the following structural and operational challenges

- Over-emphasis on trade fairs over export capability building
- Weak inter-agency coordination with EXIM Bank, EDF, and Pakistan Single Window (PSW)
- Lack of digital tools for exporters (e.g., online export readiness assessments, document automation)
- Absence of export impact metrics such as number of first-time exporters supported or diversification into new product lines and geographies
- Minimal sector-specific strategy, with limited focus on high-potential, non-traditional sectors (engineering, ICT, pharma, creative services)

International Benchmarks

Leading trade promotion agencies globally—such as KOTRA (Korea), Enterprise Singapore, ProColombia, and Austrade (Australia)—play far more integrated and strategic roles, combining trade promotion with

- Sectoral export diagnostics and roadmaps
- Integration with credit and insurance (e.g., KOTRA's work with KEXIM and K-SURE)
- Digital exporter portals for training, matchmaking, and documentation
- Export readiness programs and public–private coordination platforms

These agencies often operate with KPIs tied to national export strategies, including targets on innovation, services exports, women-led enterprises, and entry into new markets.

Proposed Reform Directions for TDAP

Under the Strategic Trade Policy Framework (STPF) 2020–25 and EDF Strategy 2025, reform options include

- Digital transformation (exporter portals, e-voucher systems, virtual trade fairs)
- Dedicated sector desks for non-traditional sectors like medical devices, IT services, green tech, and engineering goods
- Inter-agency data sharing with PSW, EDF, and SBP/EXIM Bank to reduce duplication and increase coherence
- Results-based performance indicators (e.g., export volume/value attributable to TDAP support, number of new exporters onboarded)
- Reorganization as a lean, autonomous agency, modeled after New Zealand Trade and Enterprise (NZTE) or Invest India

The restructuring and capacity-building of TDAP proposed in January 2025 by the MOC is much needed, and TDAP officials have indicated that the reform process is underway (stakeholder interview, April 2025).

TDAP organized Pakistan's first Engineering and Healthcare Show, 2022 (EHCS), where businesses from Africa and Central Asian Republics were shown the complete range of engineering and healthcare products made in Pakistan. Materialized business deals were worth a reported $47 million, expected to generate actual business of more than $150 million. Along with B2B meetings arranged by TDAP, three seminars were organized by Pakistan Single Window (PSW), BOI and SBP, respectively to show improvements in ease of doing business in Pakistan. Based on its success, TDAP has begun to hold this show to support non-traditional sectors annually.

Market entry and intelligence

Stakeholders believe that the nature of historical support by TDAP (limited to exhibitions)is inadequate for promoting non-traditional exports of Pakistan (see Box 6). Even with exhibitions, global buyers require frequent interactions (3-5 years) to build trust. Firms report that while the booths for India are growing each year signaling a strong cluster in India, participation from Pakistani firms has dwindled, sending a poor signal to global buyers. The quality of the booth managed by TDAP is also “not professionally managedprofessionally”, and often in areas with limited footfall. For these reasons, firms prefer to privately finance participation in trade fairs.

Secondly, TDAP has a limited capacity to provide marketing support. Businesses in Pakistan do not have, what some stakeholders called, an “exporting mindset”. Stakeholders relayed that it is very difficult to devise market entry strategies and there is no institutional support. The first task is to find out who the global purchasing manager is and how to get in touch with them. The next step is going to international exhibitions each year to build relationships with potential customers and get their materials trialed. If successful, the last step is to hire a sales team to market their product in the target market. Currently, this is undertaken only by large firms, while smaller and medium-sized firms have no support from TDAP. But TDAP trade officers can develop close ties with the Sector Specific Councils of the Ministry of Commerce to promote these sectors abroad in an organized way. The commercial counsellor could also identify the global purchasing managers for big firms in the country and help them develop business-to-business (BTB) connections with Pakistani firms. At the same time, the new financing windows proposed in the EDF Draft Strategy 2025 could be used to finance vouchers for documentation/certification, e-invoicing, and factoring onboarding that could be linked to bank pilots. This would reduce fixed costs for first-time exporters.

More creative options for market entry support by TDAP are also possible. TDAP could support the short-listed sectors by taking advantage of the TDAP global network of trade attaches and identify dying global brands that local firms could acquire. This would provide firms with the experience needed to create their own brand over time. Another TDAP-supported action could be to help Pakistani firms

acquire a brand with pre-existing sales and distribution channels. Similarly, branding initiatives such as TURKQUALITY have also been mentioned by stakeholders as good models, where the EDF could be used to fund global branding of high-quality Pakistani firms through a private public partnership (PPP) model.Similarly, market intelligence is critical but costly to attain for firms privately. Although facing capacity constraints, TDAP could help firms by providing market-product-specific trade intelligence at subsidized rates as well as support on regulatory compliance. The new EDF Draft Strategy (2025)[69] has included funding for the same, so TDAP could, in conjunction with EDF, fund market intelligence reports in the emerging sectors explored in this report. In the relative absence of private service providers in this space, public investment would be welcome.

The MoC can also organize sector- or product-specific trade missions for products in which Pakistan faces significant issues, especially in Latin America where language barriers are critical. Most importantly, dedicated export promotion councils have been used in South Korea and India to great success and Pakistan could emulate their models with an appropriate governance and regulatory structure adapted to Pakistan's political economy.

All stakeholders also highlighted the poor perception of quality associated with manufacturing in Pakistan. Many firms wanted more support from TDAP and MOC in “branding” to build a positive country-of-association effect. TDAP could do so by buying content and advertising space in field and industry journals to create a strong image of Pakistan as one of the oldest manufacturing clusters for many manufacturing value chains outside of Germany, Türkiye, Sweden and other countries known for their metal-working and engineering skills.

Trade diplomacy

Pakistan has free trade agreements with 3 countries, namely Sri Lanka, China, and Malaysia. Pakistan is also a part of the South Asian Association for Regional Cooperation (SAARC) and has preferential trade agreements with Iran, Indonesia, Turkey, and Mauritius. It is currently negotiating more treaties with Bangladesh, Gulf Cooperation Council countries, Morocco, Singapore, and Thailand. Similarly, Pakistan seeks a PTA (Preferential Trade Agreement) and a TTA (Transit Trade Agreement) to facilitate trade and investment with Central Asian nations. Despite signing FTAs with China, Malaysia, and Sri Lanka, Pakistan's exporters face limited market penetration due to non-tariff barriers and lack of competitive capacity.

Under the China Pakistan FTA (CPFTA), Pakistan has secured duty-free access for various products, including industrial alcohol, textiles, sports goods, medical equipment, minerals, iron and steel products, and engineering goods.

69 Piracha, M. and Nabi, I. (2025). Development of a Holistic Strategy for the Export Development Fund (EDF). Report by Consortium for Development Research.

Additionally, China has implemented a 50% tariff reduction for Pakistan on goods such as plastic and rubber products. Although Pakistan is not exporting these at the moment, there may be future scope for Pakistan to enter the Chinese market strategically in the short-listed sectors. The Pakistan-Türkiye PTA can also be useful, although it is too early to say, as it was signed in 2022. Pakistan has not taken advantage of its PTA with Iran due to the political risks associated with doing so. Many stakeholders proposed that Pakistan can import raw materials from Iran much cheaper than from China due to a shared border. Trade in local currency rather than dollars would resolve the big issue hampering Pakistan-Iran trade.

Pakistan participates in fewer trade agreements than its regional counterparts. Many of our interlocutors noted that their ability to export was constrained by the fact that Pakistan does not have free of preferential trade agreements with most potential partners while India and China, our principal competitors in many products, do. Even a small tariff can deter exports in such cases. This has been an issue in diversifying markets beyond rich countries where Pakistan benefits from GSP-provided duty-free access not available to China, for example. This has affected our ability to export to markets in Latin America, CARs and, most notably, Africa, which emerges as a natural trade vent for many sectors.

Pakistan must strategically negotiate more bilaterally with its trade partners on trade and investment issues. Apart from lower tariffs, this could also include pathways to improve soft trade connectivity, that can include

I. High powered committees where trade/investment obstacles can be quickly identified and addressed
ii. Stronger banking channels, possibility of trading in selected lines using local-currency settlement/swap arrangements with key trading partners.
iii. Agreements on mutual recognition of standards
iv. Alternative fora to discuss trade and commercial disputes.
v. Connect with Customs and Border Control authorities in non-traditional export markets to reduce more cumbersome market access barriers and raise awareness among local exporters

India and China have routinely employed trade diplomacy to skillfully navigate regulatory landscapes or obtain simplified compliance procedures through an economic partnership arrangement to reduce the costs and time of trading across borders. Pakistan must do the same, while continuing to improve governance.

Apart from having fewer trade agreements than India and China, the quality of concessions secured by Pakistan has frequently favored the other party, focusing on securing concessions for low value-added current exports. Duty-free tariff lines

offered to Pakistan in many cases are predominantly those which Pakistan does not export.[70] Therefore, existing PTA and FTAs must be reviewed to identify weaknesses in negotiation. This would improve the scope and effectiveness of Pakistan's future trade agreements to allow Pakistan's firms favorable market access to enhance their relative export competitiveness.

Towards a forward-looking trade diplomacy strategy

As Pakistan seeks to diversify its export base beyond traditional sectors, effective trade diplomacy is emerging as a critical enabler. With global trade increasingly influenced by geopolitics, tariff shifts, and new regional arrangements, proactive commercial engagement is required not only to negotiate market access but also to defend against discriminatory practices and to support firms in seizing new opportunities.

Pakistan's historical trade engagement has been limited in both capacity and strategic coherence. Trade agreements such as the noteworthy China–Pakistan Free Trade Agreement (CPFTA Phases I and II) have suffered from low utilization due to a narrow export base, weak supply-side readiness, and lack of institutional support for exporters navigating compliance regimes such as sanitary and phytosanitary (SPS) or technical barriers to trade (TBT).[71] Moreover, Pakistan lacks a dedicated cadre of trained trade negotiators and commercial diplomats embedded within a broader trade promotion ecosystem.[72]

Emerging Risks

New challenges are also emerging. In response to US Section 232 and 301 tariffs, Pakistan's engagement has been minimal, missing the opportunity for countermeasures, joint action, or even exemptions. For example, Pakistan's key exports face growing risk of unilateral tariffs or “friend-shoring” strategies in key markets such as the US, where tariff hikes on Chinese goods are incentivizing near shoring to alternative partners like Vietnam, Mexico, or Bangladesh—countries with stronger trade diplomacy and coordination.[73] Similarly, EU market access under the GSP+ regime could come under pressure if institutional mechanisms are not strengthened to meet evolving compliance demands.[74]

Strategic Focus Areas

Based on stakeholder consultations and the tariff analysis conducted in this report, the following priority markets and sectors presented in the table below offer high potential for Pakistan's non-traditional exports.

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70 PBC (2023). Lessons from Trade Agreements. Retrieved from https://www.pbc.org.pk/research/lessons-from-the-trade-agreements/

71 PBC (2022). Lessons from the Trade Agreements.

72 PBC (2023). US Tariffs and Possible Response.

73 Ibid

74 PBC (2023). Pakistan's Trade with the EU and its member countries.

Table 25 Strategic focus sectors for trade diplomacy

Region	Target Sectors	Rationale
Africa	Tractors (HS 8701), Tires (HS 4011), Motorcycles (HS 8711)	High demand, limited competition, entry despite high tariffs
Latin America	Tires, Iron/Steel (HS 73), Machinery (HS 84)	High market size, underutilized PTAs, potential for joint ventures
CARs	Machinery, Motorcycles, Iron/Steel	Logistical proximity, demand for mid-tech goods, registration underway
ASEAN	Machinery (HS 84), Engineering Components	Higher NTBs, but massive market size and quality-focused demand
EU + UK	Engineering goods, Automotive parts	Existing tariff advantage (GSP+), high margin markets
GCC	Construction inputs, Food processing machinery	Tariff parity, potential for regional branding and local partnerships

These target geographies and sectors have been selected based on observed trade volumes, tariff differentials, NTMs, and qualitative insights from exporters.

Lessons from global best practice

Countries like Vietnam, Colombia, and Türkiye have aggressively pursued trade diplomacy through:

- Proactive negotiation of mutual recognition agreements (MRAs) on standards and conformity assessments.
- Dedicated export promotion councils working in sync with trade missions and commercial attachés.
- Private sector inclusion in setting trade negotiation mandates and identifying product-level market access issues.
- Regional integration strategies, especially in ASEAN and Latin America, that go beyond tariff reductions to cover logistics, data standards, and investment protections.

Pakistan can adopt similar approaches by

- Aligning trade diplomacy with sector priorities rather than broad-based concessions.
- Establishing inter-ministerial trade negotiation units that include Ministry of Commerce, FBR, and private sector representatives.
- Using trade agreements to unlock soft trade infrastructure such as:
  - Banking channels and local currency trade (already used with Iran)
  - E-invoicing and digital customs clearance
  - Mutual recognition of quality and compliance certificates
  - investment protocols (e.g. joint ventures in tire manufacturing)

Proposed Negotiation Pathways

In lieu of granular tariff-line analysis (outside this study's scope), Pakistan can consider the following negotiation pathways

- Preferential Tariffs: Prioritize Africa, Latin America, and CARs for new PTAs, focusing on high-opportunity HS codes.
- Mutual Recognition Agreements (MRAs): Especially with GCC, ASEAN and Africa to reduce conformity costs.
- Local Currency Settlements: With Iran, China, CARs—to reduce dollar liquidity constraints.
- Regional Integration Initiatives: Participate in observer roles in Africa Continental Free Trade Area (AfCFTA) and initiate bilateral commercial dialogues with MERCOSUR countries.

Strategic Priorities

To address these gaps, the following set of trade diplomacy reforms are recommended:

1. Better coordination

Countries like Vietnam and Indonesia have benefited from a coordinated trade negotiation body that span several relevant ministries.[75] This body should coordinate all trade agreements, with members from relevant ministries (e.g., Industries, Finance, Climate, Commerce), commercial sections abroad, and private sector representatives.

2. Develop Country-Focused Commercial Engagement Strategies

The Ministry of Commerce and its overseas missions should shift from generic trade promotion to targeted commercial strategies. These should align with national export priorities (e.g., engineering goods) and bilateral opportunities (e.g., Turkey, Central Asia, African markets). Dedicated country desks with performance KPIs should be introduced.[76]

3. Strengthen Capacity of Commercial Sections Abroad

The effectiveness of commercial attachés abroad should be enhanced through:

- Specialized training in trade law, market research, and negotiation.
- Increased performance oversight with metrics linked to trade outcomes.
- Incentive alignment through rotations and posting criteria that prioritize expertise and sectoral focus.

75 PBC (2022). Lessons from the Trade Agreements.

76 PBC (2024).The Road Ahead: Opportunities in a Turkiye-Pakistan FTA.

4. Develop a Trade Disputes and Defense Unit

In light of growing protectionism, Pakistan should establish a WTO- and FTA-specific Trade Disputes Unit with legal and technical capacity to respond to non-tariff barriers (NTBs), antidumping actions, or safeguard measures. India and Indonesia have successfully deployed such units to challenge discriminatory trade actions at the WTO.[77]

5. Promote Mutual Recognition Agreements (MRAs) and Compliance Infrastructure

To boost non-traditional exports—especially engineering goods, plastics, and machinery—Pakistan must pursue MRAs with key markets to ensure its conformity assessment bodies are accepted. In parallel, domestic testing, certification, and accreditation capacity must be upgraded.

6. Proactively Shape New Trade Blocs and Regional Frameworks

Pakistan must assess entry strategies for new regional agreements such as the Regional Comprehensive Economic Partnership (RCEP) or the African Continental Free Trade Area (AfCFTA). For example, Central Asian and African markets offer considerable scope for engineering and machinery exports, but require tailored diplomatic strategies and commercial representation.

Case study: Africa—A new market

Accessing the African markets through the Look Africa Policy(see Box 5) introduced by the MoC in 2017 has been difficult as stakeholders underscore the strong first-mover advantage of India and China. India is the 3rd largest trading partner for Africa. In addition, India not only has preferential tariff access to African markets, but also strong local distribution and marketing channels. Similarly, while there are no Pakistani banks in the region, there are many Chinese and Indian banks. In addition, most big Indian brands have local offices, and as many as 32 trade agreements across the 54-country continent.

This is a powerful reminder that trade agreements are not the only way to promote exports. To tap new markets in Africa and Central Asia would require some initial groundwork to lower transaction costs of trade that can be as simple as overcoming language barriers and removing overlapping taxation. The groundwork must begin early, in terms of aligning banking channels, identifying high-powered fora for dispute resolution, enforcing agreements on mutual recognition of standards, protection of intellectual property rights, data protection and electronic data exchange. It is helpful when non-tariff trade frictions have been minimized, prior to trade agreements. In addition, the government should implement trade facilitation measures with the relevant

77 PBC(2023). US Tariffs and Possible Response

Customs and Border Control authorities in non-traditional export markets to reduce more cumbersome market access barriers. It can also organize sector- or product-specific trade missions for products in which Pakistan faces significant non-tariff barriers.

Box 7 Look Africa Policy (2017)

Africa is a growing market of 54 countries, with a population of under 1.5 billion, and an average annual GDP growth rate in the range of 3% over the last 5 years. East Africa is the largest growing region, followed by West Africa. Growth in Ethiopia, Kenya, and Uganda over the next 10 years is forecast to be more than 6%, indicating the potential of that market. Exports have hovered at $3-3.5 billion over the last 5 years, but touched $4 billion in 2019-20.

The Look Africa policy focuses on 10 economies, namely Nigeria, Kenya, South Africa, Morocco, Senegal, Algeria, Egypt, Sudan, Tanzania, and Ethiopia. Engagement will be through PTAs with 3 African trading blocs

1. The Southern African Customs Union (SACU) : Botswana, South Africa, Namibia, Lesotho, Eswatini.
2. The East African Community (EAC): Kenya, Uganda, Tanzania, South Sudan, Rwanda, and Burundi
3. The Economic Community of West African States (ECOWAS): Nigeria, Niger, Senegal, Togolese Republic, Sierra Leone, Benin, Burkina Faso, Cabo Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, and Mali

Trade facilitation measures include

- Granting accreditations, appointing trade development officers (TDOs) and opening six new commercial sections in Africa, including in Algeria, Egypt, Ethiopia, Senegal, the Sudan, and Tanzania
- Organization of Look Africa trade forums in major cities in Pakistan to create awareness among the private sector players;
- To initiate negotiations on bilateral and multilateral trade agreements for market access in Africa, formation of joint working groups on trade;
- Establishment of Africa Cell in the TDAP in Karachi;
- Special facilitation for delegations to and from Africa;
- Enhanced facilitation by the government for firms that participate in trade fairs in Africa;

Overall assessment of ease of market entry

Pakistan faces significant challenges in entering new export markets due to weak

trade facilitation, poor logistics infrastructure, and limited financial support for non-traditional exports. While textiles and agricultural exports benefit from targeted financing, diversified industries (engineering goods, plastics, rubber, ferrous metals) struggle to access export incentives. Additionally, limited trade agreements and high tariffs affect access in Africa, Latin America and ASEAN countries. Non-tariff barriers restrict Pakistani exporters' market access in Europe and North America, where tariffs are otherwise lower.

For Pakistan to improve export market access, it must invest in trade facilitation, streamline regulatory processes, and expand trade agreements. Expanding export credit support beyond textiles and agriculture, along with enhancing logistics and digital trade facilitation, would make entering global markets easier for Pakistani exporters.

6. Review and Conclusions

Pakistan now faces the double challenge of expanding the quantity of exports while simultaneously enhancing quality through diversification. The objective of this report was to explore product categories that can enhance value addition in Pakistan's export basket. This objective is consistent with the emphasis placed in the Strategic Trade Policy Framework (STPF) for 2020-2025 on export diversification as an objective and product sophistication as a path to this objective. The study has identified six non-traditional export sectors that are close enough to existing production capabilities, but provide a pathway towards stronger industry linkages, skills and learning for higher productivity in the future. The study then assessed the potential for firms to diversify into these more complex and non-traditional products along three metrics: export competitiveness, export readiness as well as their ability to enter global markets.

As a first step, we looked for empirical information on complex products since the literature indicates that the manufacturing and export of such products is associated with higher productivity. Relevant information is available in an international database called the Atlas of Economic Complexity (AEC). We used the Pakistan part of this database to identify six sectors for further investigation (see Chapter 2). These sectors are Iron and Steel, Machinery, Motorcycles and Tractors, Plastics, Rubber Tires, and Cement. We then proceeded to get a deeper sense of export potential and challenges by interviewing prominent participants (firm owners, managers and technical personnel) in these sectors (as reported in Chapter 3). We also reviewed the considerable secondary literature that now exists on more general aspects of trade performance such as issues pertaining to export readiness (logistics, infrastructure and financing) and to export market access (trade barriers, regulations and trade facilitation/diplomacy). These broader aspects were covered in Chapters 4 and 5.

Overview of export experience and potential

Each sector has some competitive advantages that have helped propel exports and some disadvantages that have constrained higher growth. Table 26 provides a summary.

Table 26 Sources of competitive advantage and disadvantage by sector

Sector	Sources of competitive advantage	Sources of competitive disadvantage
Iron and Steel	Nimble entrepreneurship and marketing	Cost of imported steel and coils Cost of energy
Machinery	Nimble entrepreneurship and marketing; Local engineering skills	Cost of imported steel and components Cost of energy
Motorcycles and Tractors	Localization of components; Technical and marketing partnerships with foreign companies	Cost of energy
Plastics	Nimble entrepreneurship and marketing	Cost of imported plastic pellets and granules; Cost of energy
Rubber Tires	Nimble entrepreneurship and marketing	Cost of imported rubber and carbon black; Cost of energy
Cement	Local supply of raw materials and production efficiency	Transportation costs; Cost of energy

While there are some differences across sectors, nimble entrepreneurship has been critical for most. Such entrepreneurship can be seen in the Machinery sector, for example, where successful exporters focus on narrow product lines such as wheel hubs for trucks or sugar cane crushing machines. Pakistan is unable to compete in standardized products, which are dominated by India and China who benefit from scale economies available in their huge domestic markets. Some firms have found export success by identifying suitable areas through market research and intelligence operations, including by participating in trade fairs and exhibitions. Such operations can sometimes identify tariff and nontariff anomalies affecting competitors but beneficial for Pakistan. These anomalies will likely become more important in the next few years as the ongoing restructuring of US import tariffs plays out. In addition, agility in marketing can be critical. In the Iron and Steel and Plastics sectors, for example, some companies have opened offices in the US and Canada to build marketing relationships and procure orders as domestic companies. At the same time, such entrepreneurship has had to struggle against two common constraints: the cost of key raw material imports and the cost of energy. Skilled labor and foreign investment have not been uniformly important but may become so in the future.

The sources of advantage and disadvantage shown in Table 26 are derived from interviews with participants in the selected sectors. In addition, relevant information is available through studies based on larger samples, though not for the specific sectors considered in this report. For example, one study focused on four sectors (textiles, leather, agro-food and fisheries) finds that firms that invest in international certification expand exports faster than those that do not (Masakure, Henson and Cranfield, 2009). The certification-exports connection has been confirmed in a more recent study (Wadho and Chaudhry, 2025) for the textile sector. Another study (Alam, 2018) shows a positive impact on exports (measured as value of exports, number of exporters, and number of products per exporter) during 2003-1010 from Pakistan's participation in the South Asian Free Trade Area (SAFTA) and with China. For non-food items, studies also show that firms located in urban areas tend to export more than those in rural areas, indicating the importance of business clusters, skills availability, and infrastructure.

In the sections that follow, we review some of the critical determinants of export potential in more detail.

Role of imported raw materials

Four of the six sectors shown in the table suffer a competitive disadvantage in not having a local source of primary raw materials, especially in comparison with competitors such as China and India. Without domestic steel making capability, all downstream industries must contend with the need to import steel billets, sheets and coils. In the machinery sector, imported compressors and heat pumps were reported to account for up to 85% of the cost of producing refrigerators and freezers. This leaves a small margin for adding local value. In the plastics sector, the lack of naphtha cracking facilities in the country compels producers to use imported raw materials which can account for up to 60% of total costs. The export prospects of rubber tires are affected by the fact that 80% of raw materials (mostly natural and artificial rubber and carbon black) are imported. Imported raw materials become more of a constraint when the Pakistani rupee depreciates, which has happened steadily over many years, and more dramatically since 2020. Note, however, that local manufacturing of steel coils and bars and plastic granules would continue to face a disadvantage in raw materials costs since Pakistan does not have much local supply of iron ore or petroleum and these will continue to have to be imported.

Role of energy costs

Comparatively high energy costs (i.e., higher than those prevailing among competitors) have been a source of concern for each of the sectors considered in this report. In recent years, such costs have risen for two main reasons. First, there has been significant depreciation of the Pakistani rupee which has raised the

rupee cost of fuel. Second, fiscal stress has led to higher taxes on energy, which has also raised the domestic cost of fuel. Thus, the unit cost of electricity ($/kWh) faced by Pakistani manufacturers in FY24 was $0.15 compared with $0.10 in India and $0.09 in China, two big competitors in virtually every light manufacturing sector.

Role of engineering and technical skills

To achieve higher value added in exports requires moving into more complex goods which, in turn, requires a more technically oriented workforce. This is what happened in the East Asian countries (like Korea, Taiwan, Singapore, China, Thailand and Malaysia) during the past six decades or so. But it has not happened in Pakistan. In each sector considered, we were told that domestic engineering universities and technical training institutes were not producing skills at a scale and of a quality matching industry need. However, labor remains a small part (5-10%) of the overall cost structure in these sectors and so the matter has not yet been elevated to a major competitive disadvantage.

Role of foreign investment

The role played by foreign investment in export expansion has varied from country to country over the last seventy years. Korea relied mostly on licensing foreign technology rather than direct foreign investment. But domestic companies were only given bank credit and access to foreign exchange if they proved their worth through export success. Other countries, such as Malaysia and Singapore, allowed foreign investment to engage directly in exports and provided an economic, regulatory and legal environment which attracted many foreign companies.

In Pakistan, foreign investment has played an import substituting role but not an export expanding role. This has been the case, for example, for transport vehicles (such as motorcycles and automobiles), white goods (such as refrigerators and washing machines), and a great variety of consumer goods. In most cases, the joint ventures (JVs) that were established did not allow the local partner to export at will, since the foreign partner did not wish to have such competition in its own export markets. Over time, some JVs did allow limited exports to specific markets, such as motorcycles and tractors (and their parts) to Afghanistan and some countries in Africa. This also been the case for rubber tires where the JV partner has encouraged exports to some Latin American markets. In other cases, such as in the machinery sector, some domestic companies were able to purchase or lease technology licenses from foreign companies which allowed them to export directly. So foreign investment can be both a facilitator and a constraint to exports, depending on the specific terms included in the JV and technology licensing contracts.

Table 27: Export potential by sector

Sector	Considerations related to export potential
Iron and Steel	Total exports from this sector (HS73)were around$120 million in 2024. It is hard to see much growth potential given that Pakistan does not have any steel-making capability and has not developed its iron ore reserves. If energy costs can be kept regionally competitive, however, modest export growth is possible, especially if construction demand increases in nearby markets.
Machinery	Total exports from this sector (HS84) were $199 million in 2024. Significant growth is possible because there is a reasonable margin for domestic value addition in many of the products of this sector. The restructuring of US import tariffs in recent months may offer competitive opportunities to Pakistan relative to China and India at least for the next year or so.
Motorcycles and Tractors	Total exports from this subsector (HS8701 and 8711) were $61.7 million in 2024. Modest export growth is possible because a local components industry is by now well established, the supply of engineering skills is reasonable and joint venture partners have shown flexibility in allowing the domestic partners to expand in some markets such as Africa.[78] The restructuring of US import tariffs in recent months may offer competitive opportunities to Pakistan relative to China and India at least for the next year or two.
Plastics	Total exports from one subsector (HS3920) were $96 million in 2024. Modest export growth is possible if the ongoing restructuring of US tariffs plays out in Pakistan's favor.
Rubber Tires	Total exports from this sector (HS40) were $126.3 million in 2024, of which rubber tires were around $85.3 million. Export potential is not promising since the sector relies heavily on imported raw materials and faces significant energy costs.[79] Much depends as well on US import tariffs applicable to China since the main Pakistani exporter has a JV relationship with a Chinese manufacturer.
Cement	Total exports from this sector were $298 million in 2024. The potential for export growth is limited by high transportation and energy costs. The main changes in the global trading environment are occurring in US import tariffs but these do not matter much to Pakistan because the US is not a major export destination.

Note: Trade data is extracted from ITC TradeMap, for 2024. Accurate as of September 2025.

Several low-costand low-skilled countries have been able to expand manufacturing exports in recent years. Examples include Cambodia and Vietnam which have succeeded in attracting foreign investment into relevant sectors. Unfortunately, Pakistan has not been able to attract such investment into its export sector. Indeed, it has not even been able to attract much domestic

78 Motorcycles are one of the priority products noted in STPF (2020-2025).
79 Note that tires are one of the priority products noted in the STPF (2020-25). We do not think that export potential in this product is high.

investment. The domestic investment rate has fluctuated around 11% of GDP for the last two decades. This may be due to issues such as physical security, governance, energy costs, credit availability, macroeconomic instability, logistics and other factors defining the local business climate. Some of these issues, such as logistics and financing, were taken up in Chapter 4 to assess the state of export readiness across these sectors. Other issues that affect ease of market entry, such as improving access to foreign markets through trade diplomacy and support, were examined in Chapter 5.

Domestic logistics

Since exports tend to function on very narrow margins because of competition, even small additions to cost can prevent an export transaction from going through. Our consultations reveal that this is a key consideration for global sourcing managers and one reason why big global firms do not extend their procurement network to Pakistan: delays arising in Pakistan would compromise their global supply chain. Pakistan was ranked 122 out of 160 countries in the Logistics Performance Index prepared by the World Bank in 2018. Performance on customs (clearance times), tracking and tracing consignments, as well as trade- and transport-related infrastructure was particularly poor. Pakistan was unranked in 2023 while India secured a rank of 38 (out of 139 countries), an improvement of 6 places from its previous rank of 44 in 2018.

While this is a broad comparative assessment, it points to the need for government agencies in Pakistan to investigate domestic logistics further to see where improvements can be made. One area of potential improvement is transportation infrastructure, notably rail transport. Rail is not a major conduit for inland cargo transport in Pakistan (only 2% of total cargo). The failure to maintain tracks and rolling stock led to the abandonment of rail and its replacement by road transport many years ago. The National Tariff and Logistics Policy that is expected to be implemented through the awaited National Transport Plan should address this critical bottleneck in the logistics chain. Another area needing improvement is port handling. Pakistani seaports experience congestion due to limited handling capacities and inadequate connectivity to major highways. Operational efficiency is low, with a dwell time of 7 days, triple the time taken in East Asia. The foreign investment which has been announced in terms of automation, addition of more terminals as well as port management should be facilitated by the Board of Investment (BOI).

Pakistan also has strategic access to im portant international shipping routes through the Arabian Sea that could be proposed as a unique value proposition for potential investors. Improved regional connectivity, through initiatives like the China-Pakistan Economic Corridor (CPEC), Central Asia Regional Economic

Cooperation (CAREC), and agreements with neighbouring countries, could boost trade once fully operational.

Trade financing

Industry representatives stressed two financial challenges faced by Pakistani exporters. First, domestic banks are not providing adequate credit to exporters, and even less to small and medium exporters. In part, the lack of credit to the private sector is due to the high fiscal demand of the public sector which borrows heavily from local banks. Where offered, the predominant form of export financing is lending to exporters on concessionary terms, via schemes operated largely by the State Bank of Pakistan. Such schemes are accessible to a range of sectors on paper, but the preference to lend to traditional industries like textiles and agriculture poses challenges for exporters in non-textile and non-food sectors. To foster diversification, it is crucial to ensure that financing facilities are equally accessible to all sectors, accompanied by clear guidelines and awareness initiatives to encourage broader participation. Strategic use of trade finance tools to promote exports is a notable feature in India and China. Other countries have changed their trade finance practice to reflect the worsening global trade environment, including risks arising from trade protectionism and security issues. To support the non-traditional export sectors of Pakistan, the government has been considering a menu of trade finance solutions.

The second challenge is the inadequacy of Pakistan's banking relationships in several export markets; indeed, Pakistani banks have been retreating from some key markets in recent years. Habib Bank Limited and National Bank of Pakistan have shut down branches in some countries. This has forced potential exporters to go through other intermediaries, a practice that raises costs.

Trade diplomacy considerations

As far as trade diplomacy is concerned, many of our interlocutors noted that their ability to export was constrained by the fact that, unlike India and China, Pakistan does not enjoy free or preferential trade agreements with many potential partners. Even a small tariff can deter exports in such markets, especially when Pakistan is a late entrant relative to its more established competitors. For example, in ASEAN, China fares much better with duty-free access, followed by India (with a tariff rate that is almost 2-3 percentage points lower than Pakistan for all sectors). Accessing African markets has been difficult, notwithstanding the Look Africa Policy introduced by the Ministry of Commerce in 2017, as stakeholders underscore the strong first-mover advantage of India and China. A case in point—India is the 3rd largest trading partner for Africa and has almost 32 agreements across the 54-country continent.

We also note that, even in established traditional markets, the EU and US, where Pakistan enjoys preferential duty-free access (new rubber tires, plastic film, and motorcycles) not afforded to China (but sometimes to India, as in plastics and motorcycles), Pakistan has not been able to reliably convert access into significant export volumes. This may be due to non-tariff measures (NTMs) which are mandatory legal requirements, rules or regulations including technical measures and standards, as well as regulations on customs procedures and para-tariff measures. While these regulations are generally consistent across exporting countries, variations can occur based on bilateral trade agreements, compliance histories, and geopolitical factors. Overcoming NTMs barriers should be a focus of trade diplomacy, especially in facilitating compliance with standards.

Most manufactured exports need to meet certain technical and safety standards. Two issues often arise. One is that potential exporters may not be aware of such requirements in specific markets. Indeed, our interlocutors felt that active governmental assistance was provided in India and China but not as much in Pakistan to help firms understand and meet foreign regulatory requirements, including subsidies for compliance-related expenses. The second issue is alignment of domestic with foreign standards. In principle, Pakistan has a domestic certification system that could meet this need. However, little effort has been made to align domestic standards with international ones so that domestic certification could be used. Instead, potential exporters must acquire appropriate certifications through international sources that are more expensive. This is partly a technical problem and partly one of governance. The technical side could be managed through the purchase of more sophisticated testing and inspection protocols, the establishment of more accredited laboratories, and negotiating bilateral standard alignment agreements. The governance side is harder to manage as it involves the credibility of local public and private certification sources.

Pakistan must also negotiate bilaterally with trade partners on tariff and non-tariff issues. India and China have routinely employed trade diplomacy to skillfully navigate regulatory landscapes or obtain simplified compliance procedures through an economic partnership arrangement. Pakistan could establish high-powered bilateral committees where trade/investment obstacles can be quickly identified and addressed, along with facilitating stronger banking channels, sign agreements for mutual recognition of standards, and develop alternative fora to discuss trade and commercial disputes.

Trade support considerations

The Trade Development Authority of Pakistan (TDAP) is the main export promotion and marketing agency in Pakistan. It has a limited role in providing trade/market intelligence (which ideally should be its only role) due to inadequate

funding and little in-house capacity. It mostly provides funds for participation in trade fairs (as cited by industry). Stakeholders believe that TDAP should instead provide support for market intelligence and entry strategies, although it is constrained by its limited capacity to provide marketing support. According to some, businesses in Pakistan do not have an “exporting mindset”. They are often unaware of how and where to sell products and there is no institutional support, especially for smaller and medium-sized exporters. They need help in identifying and contacting global purchasing managers. Currently, larger firms exhibit their products repeatedly to cultivate trust and build relationships with potential customers, with a handful eventually building overseas sales teams that market their products.

Pathways for enhancing export potential of complex products

Pakistan's export potential in non-traditional sectors remains untapped due in part to weaknesses in logistics performance, export financing, and institutional trade support. Despite signs of entrepreneurial agility and emerging export activity in sectors such as engineering goods, tires, plastics, and motorcycles, these gains remain isolated. To transform them into systemic export drivers, a coherent national export strategy—backed by logistical upgrades, facilitative regulation, targeted trade diplomacy, and better-aligned financial instruments—is essential.

The analysis revealed that improving export logistics and trade infrastructure would not only lower exporting costs but also attract foreign investment and facilitate Pakistan's entry into global value chains. Pakistan's current logistics costs are among the highest in the region, reducing the competitiveness of its exports by as much as 20% on traded value. Furthermore, inefficient customs and transport procedures undermine reliability, deterring foreign buyers and investors. Without urgent reforms—particularly in governance coordination and process efficiency—logistics will remain a key constraint to export growth.

Similarly, trade finance architecture must evolve to support product and market diversification. Currently, access to export finance is concentrated in traditional sectors like textiles. Yet, the most promising export sectors now lie in areas that do not meet the legacy risk assessment and eligibility models. Expanding export financing to support non-traditional sectors through receivables-based lending, insurance guarantees, and ring-fenced risk-sharing instruments would directly address this gap.

On market entry, the analysis of tariff differentials revealed that Pakistan enjoys some strategic advantages—particularly in the EU, Turkey, and the US—where GSP+ or MFN access provides a temporary edge over Indian and Chinese exports. However, Pakistan has not yet converted these into significant market share due

to underdeveloped trade support services and lack of commercial presence abroad. In many emerging markets such as Africa, Central Asia, and Latin America, Pakistan lags competitors in terms of both tariff concessions and trade diplomacy.

Table 28: Potential pathways for enhancing export potential

Challenge	Key Objectives	Possible Interventions
Expensive energy	Reduce the high cost of energy in Pakistan	Renegotiate IPP contracts to reduce capacity charges. Reduce taxes on electricity and gas for industrial users to levels prevailing among competitor countries
Poor logistics / infrastructure	Better logistics/ infrastructure	Review domestic transport policy to enhance cargo transport by rail; upgrade rolling stock and tracks; further automate port procedures through cranes, inspection scanners and digital tools; improve port management systems
Inadequate export financing	Expand export financing to non-traditional sectors	Work with SBP to develop movable assets finance; Utilize EXIM Bank for export credit insurance and guarantees; Develop digital trade finance products to streamline access
Limited access to non-traditional markets	Secure better market access for non-traditional exports	Review existing PTAs to learn what features to incorporate in new PTAs; focus on Africa; negotiate sector specific agreements in non-traditional export markets to reduce access barriers
Underutilized trade diplomacy	Engage trade partners in new markets like Latin America, Africa and Central Asia	Develop high-powered committees to bilaterally address trade/investment obstacles, facilitate stronger banking channels and adopt agreements on mutual recognition of standards; Undertake trade facilitation exercises with relevant Customs and Border Control authorities in non-traditional export markets
Inadequate trade support	Provide more trade support to exporters	Build TDAP capacity by pairing their officers with MoC Sector Specific Councils to share industry-specific resources like data; Instruct TDAP to provide market-product-specific trade intelligence through their trade attachés; Develop sector-specific export promotion councils
Weak compliance infrastructure	Improve regulatory alignment with trade partners	Conduct workshops/trainings on regulatory compliance; sign mutual recognition agreements; get Pakistan National Accreditation Council internationally recognized; encourage more accredited certification bodies to enter the market

Based on the information collected for this report, indicative pathways to enhance the export potential of non-food, non-textile sectors are presented in Table 28. Note that several of the pathways noted in the table had also been identified in STPF (2020-25). This includes improving logistics, facilitating certification services, enhancing trade finance facilities and providing energy at regionally competitive prices to exporters. This was to be expected, of course.

Every time one collects data and opinions on the factors that constrain Pakistani exports, one is led to very similar results. This suggests that relevant implementation mechanisms are not put in place after plans and policies are announced or that they fail to achieve significant results. Even this implementation challenge is recognized in the STPF.

To conclude, Pakistan must move from reactive to strategic export development. This requires institutionalizing an ecosystem where investment promotion, trade diplomacy, logistics planning, and export finance are coordinated—not fragmented. The government's current reform initiatives provide a critical window to make these shifts and position Pakistan as a viable mid-tech, mid-cost exporter in the global economy.

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Annex A: List of Interviews

Table A1.1 Stakeholder details

Sr. No	Organization	Sector
1	Ittefaq Steel	Iron and Steel
2	Ravi Autos Sheikhupura Pvt. Ltd.	Machinery
3	Dawlance	Machinery
4	Atlas Honda	Motorcycles and Tractors
5	United Motorcycle	Motorcycles and Tractors
6	Nova Mobility	Motorcycles and Tractors
7	Novatex Ltd	Plastics
8	Millat Tractors Ltd.	Motorcycles and Tractors
9	Tri-Pack Ltd.	Plastics
10	PAAPAAM/RK Gears Pvt. Ltd.	Machinery
11	Qadri Engineering	Machinery
12	Mughal Steel	Iron and Steel
13	Maple Leaf Cement	Cement
14	Thermosole Industries Pvt. Ltd.	Plastics
15	Airlink Communications	Mobile Phones
16	Dartways (SMC-Pvt) Ltd.	Trade Consultancy
17	Servis Tyres	Ruber Tires
18	SPEL – Synthetic Products Enterprise Limited.	Plastics
19	Yaqin Steels Ltd.	Iron and Steel

Annex B: Automotive Policies

The AIDEP sets production capacity targets, that amounted to 7 million 2-wheelers and 100,000 tractors per annum by June 2026. To promote exports, AIDEP 2021-26 suggests that local partners renegotiate restrictions imposed by their OEM principals on exporting auto parts and vehicles from Pakistan, such that by 2026 mandatory exports from Pakistan would amount to 10% of Cost & Freight (C&F) value of total imports by the OEM through their global supply chains or global distribution channels/networks. While the numbers are indicative, the intent is clear—to encourage exports from Pakistan to target markets. The following have been proposed as incentives:

- For each vehicle exported, duty-free import of an appropriate number of CKD kits will be considered in the next consignment through PSW
- Import of all locally manufactured raw materials/components may be allowed under SRO. 655(I)/2006 & SRO.656(I)/2006 at 0% CD for export purposes
- Allowing payment of DLTL at enhanced rate on export of motorcycles, rickshaws, tractors, cars, and auto parts
- Specialized Temporary Economic Refinance Facility (TERF) may be designed / announced for capacity enhancement and modernization of auto manufacturers/exporting companies.
- Import of vintage cars, refurbishment & exports may be allowed duty free. The existing policy by Ministry of Commerce may be reviewed for Ease of Doing Business in consultation with Vintage Car Association.
- OEMs/vehicle manufacturers will be facilitated for local manufacturing of left-hand vehicles for export purposes only

The government recently signed the UNECE WP-29 that harmonizes vehicle regulations (international vehicle safety standards), which could help open new export markets, as most local players already meet the strict standards of their principals. Additionally, to promote exports, the AIDEP recommends trade agreements with Africa, Turkey, Iran, Bangladesh, Sri Lanka and Latin America, but there has been little progress to that end.

As with all policies, implementation of the AIDEP 2021-26 is mired with budgetary issues, as there is limited fiscal space for the proposed incentives. At the same time, the local industry has not been able to meet the export or localization targets, citing high production costs, depressed demand due to inflation and global uncertainty (and requested a 24-month extension). The Auto Industry Development and Export Committee (AIDEC) under the Engineering Development Board will review and monitor policy objectives and provide technical assistance when requested by the EDB/MOIP.

Electric Vehicles (EVs): The government's Electric Vehicle (EV) Policy 2020-2025 offers significant incentives for both manufacturers and consumers, including reduced import duties on EV components and lower sales tax on locally manufactured EVs with battery packs below 50 kWh. This creates a favorable environment for the development and sale of electric vehicles in Pakistan. As awareness of environmental issues increases, there is growing consumer interest in sustainable and eco-friendly transportation options. This trend is expected to drive demand for electric and hybrid vehicles.

Localization and Component Manufacturing: The government's focus on localization, as outlined in policies like the Automotive Development Policy (ADP) 2016-2021 and Automobile Industry Development and Export Policy (AIDEP) 2021-2026, presents opportunities for local component manufacturers. The AIDEP has set a target of 100% localization of motorcycle parts and 75% of car parts by 2026. By increasing the production of locally manufactured parts, companies can reduce costs and reliance on imports. Similarly, this could limit the dominance of used auto parts in the after-sale market, currently imported illegally under the garb of "scrap". The establishment of SEZs under the China-Pakistan Economic Corridor (CPEC) provides infrastructure and tax incentives that attract investment in local automotive manufacturing, particularly for parts and components. However, 75% of total costs of automotive parts consist of raw material imports of Aluminum, Polypropylene, PVC and HRC.[80] The sector consists of a large number of fragmented players, including 2,000 Automotive Parts vendors. Almost 400 vendors are Tier-1 firms that produce according to high and strict global regulatory standards and supply OEM markets.[81]

Policy support

Dating back to 2006, local manufacture of automobiles, parts and accessories has been subject to various SROs to encourage in-house production facilities.

- SRO.656(I)/2006 –which authorizes assemblers/ OEMs import of CKD at concessionary duty.
- SRO.655(I)/2006 – allows vendors/ part manufacturers concessionary import of inputs.
- SRO.693(I)/2006 – list of localized auto-parts on import of which assemblers have to pay additional duty.

SRO 693(I)/2006 lists the localized parts for various automobiles, which are subject to additional duty if imported. This protection is granted as long as local value addition is 30% for parts manufactured under SRO.655(I)/2006 (excluding engine,

80 PACRA (2024). Sector Study: Automotive parts. Retrieved from https://www.pacra.com/index.php/view/storage/app/Automotive%20Parts%20-%20PACRA%20Research%20-%20Nov%2724_1731503411.pdf

81 Ibid.

gear box and transmission parts). Components or sub-assemblies with less than 30% local value addition are ineligible for concessions. By 2026, the motorcycles and agricultural tractors segments will be phased into the normal tariff regime, after consultation with relevant manufacturers.[82] Additional incentives provided by the AIDP within the new product category for tractors and higher engine capacity motorcycles (more than 125cc) are listed in Table A2.1.

Table A2.1: AIDP incentives for new product categories (2-wheelers and tractors)

Category	Incentive Details	Duration
Motorcycles (exceeding 125cc), Motorcycle Rickshaws, and Auto-Rickshaws (exceeding 200cc)	- Customs Duty on Localized Parts: Reduced from 46% to 30% (a 16% reduction). - Customs Duty on Non-Localized Parts: Set at 15%.	Applicable for three years from the issuance date of the manufacturing certificate or until June 30, 2026, whichever is earlier.
Agricultural Tractors (new make or model)	- Customs Duty on Localized Parts: Reduced to 15%, providing a 20% advantage over the standard rate.	Applicable for three years from the issuance date of the manufacturing certificate or until June 30, 2026, whichever is earlier.

Note: The standard customs duty rates are typically 30% for non-localized parts and 46% for localized parts. The incentives above offer significant reductions to encourage local manufacturing. Source: AIDP 2021-26.

Other incentives for the local manufacturing of parts and components include

I. Duties on imports under SRO.655(I)/2006 shall be rationalized to promote local manufacturing
ii. Depending upon fiscal space available to the government of Pakistan, tax credit equal to investment for setting up in-house Design Shops, Testing Laboratories, Certification, Service Centers, R&D support centers, etc. will be allowed.
iii. Similarly, credits are also proposed for development of local designs, manufacturing tooling, molds & dies for local manufacturing of parts, products and vehicles
iv. Depending upon fiscal space available to the government of Pakistan, taxes and duties on import of machinery equipment, testing equipment, other design equipment & software, 3-D Printers, calibration equipment etc. shall be rationalized to promote local manufacturing and quality control.

82 https://moip.gov.pk/SiteImage/Policy/Auto%20Industry%20Development%20and%20Export%20Policy%202021-26.pdf

Annex C: Trade Policies

Federal policies such as the Strategic Trade Policy Framework (STPF 2020-25) and the Trade-Related Investment Policy Framework 2018-23 (the supportive framework for the STPF 2020-25) shape the contours of the existing trade ecosystem of Pakistan. As such, they also play a role in trade facilitation.

Strategic Trade Policy Framework (STPF) 2020-25

The Strategic Trade Policy Framework (STPF 2020-2025)[83] aimed to enhance export competitiveness and facilitate trade through four enabling pillars. Those pillars are Competitiveness Enhancement, Trade Related Investments, Integration into Global Value Chains, and Export Eco-System. The STPF 2020-25 laid out critical intervention areas for the sector under each of these pillars, along with the specific implementing bodies/departments. The National Export Development Board (headed by the Prime Minister) is monitoring the implementation of the STPF 2020-25. The interventions identified are funded by Export Development Fund (EDF), Public Sector Development Program (PSDP) and Public-Private Partnership mode.

The salient features of STPF included:

- Rendering exports, a national priority and primary driver of economic growth
- Collaborative efforts engaging relevant ministries, departments, and private sectors
- Strategic interventions in priority sectors under the 'Make in Pakistan' initiative
- Alignment with macro-economic frameworks and national policies

Trade-Related Investment Policy Framework 2015-23

The Trade-Related Investment Policy Framework 2015-23 (TRIPF 2015-23)[84] was developed concurrently with the STPF to formulate a unified direction for national trade and investment policies that could attract export-oriented investment in these 20 sectors. This policy provided a more detailed vision for which sub-sectors to target within the sectors prioritized by the STPF 2020-25.

The Trade-Related Investment Policy Framework 2015-23 identified potential activities within the 20 priority sectors of the STPF 2020-25 (see Table 27). The primary criterion was ensuring production to meet local demand while diversifying into value-added activities for Pakistan that could aid its transition into lucrative global value chains. Three factors were considered to identify the sub-sectors/products to promote for trade related investment, including:

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83 A new STPF is being formulated for the next five years.

84 Ministry of Commerce and Textile, GoP. (2018). Trade-Related Investment Policy Framework 2015-23. It is noted that delays in the formulation of this policy led to its release in 2018. It is included in the study as it is the most recent policy framework to support the STPF 2020-25.

- Ease of diversification: how close existing sectors are to the "new" sector, i.e., if the current sectoral capacity encompassing inputs, skills, knowledge, and experience can reasonably assist firms to diversify into new sectors
- Economic complexity: the degree of value-addition in the "new" sector, as "complex"[85] products have high premiums
- Domestic and global demand: scope for economies of scale and competitive import substitution

Table A3.1 Selected sectors/segments in Trade-Related Investment Policy Framework 2015-23

Relocating sectors from other countries with value addition	Simple value-addition in resource-intensive segments	Import substitution	Improving complexity and entry into GVCs
Textile	Juices and syrups	Oil Refinery and Petrochemicals	Consumer Electronics
Apparel	Confectionary	Data Processing /ICT Equipment	Integrated Circuits manufacturing
Footwear and Bags	Fish	Telecom	Automotive Electronics
Copper cathodes	Edible oil	LED Lights	Electricity Equipment
Aluminium Sheets and Foils	Edible oil	Solar Panels	Chromium Bromide Batteries
High-technology Steelmaking			

Source: Ministry of Commerce and Textile, GoP. (2018).

Incentives such as land allocation in economic and export processing zones, duty free machinery import, subsidies in utilities and tariff protection were proposed. However, a review of the federal investment policy reveals little complementarity with TRIPF, and sometimes, even with STPF. The TRIPF was a well-intentioned policy framework, but despite the policy's focus on diversification, textiles continued to dominate Pakistan's export profile, accounting for over 60% of total exports, even in FY 24. The incentives did not effectively translate into significant growth in other sectors like engineering, chemicals, or high-value agriculture for several reasons, including lack of institutional coordination for implementation. There was no focus on policies to promote innovation and R&D investment, squandering an opportunity to focus on technology-driven industries like renewable energy, pharmaceuticals, and medical devices. Implementation of incentives was slow, especially in the rollout of infrastructure projects in SEZs. Issues of compliances were largely ignored, which are critical for SMEs, who were incidentally not adequately supported under the policy framework of the TRIPF.

85 Harvard Atlas of Complexity.

National Tariff Policy (2019-24)

The National Tariff Policy 2019-24 (NTP) was a welcome but timid first step in undertaking trade-related structural reforms in Pakistan. Reclaiming tariff policy setting from the FBR, the National Tariff Policy of the Ministry of Commerce marked a change, on paper at least, to rethink tariffs as a lever of trade, industrialization and investment rather than a tool for revenue collection. The NTP recognized the anti-export bias of the existing tariff structure. NTP sought to promote trade through cascading tariffs, encourage competitive import substitution and provide strategic sectoral support through time-bound protection. These recommendations were not accompanied by a subsequent implementation plan or time frame, nor were they embedded in the overall trade and investment policies of the country. More critically, these recommendations were not in line with the policies of countries (East Asia) that have successfully used tariffs as a trade promotion tool.[86] The upcoming National Tariff Policy 2025-30 is said to focus on[87]

I. Reforming the Regulatory Duty Regime
II. Targeted Import Substitution
III. Sectoral Tariff Adjustments
IV. Tariff Incentives for Infant, Nascent, and Green Industries

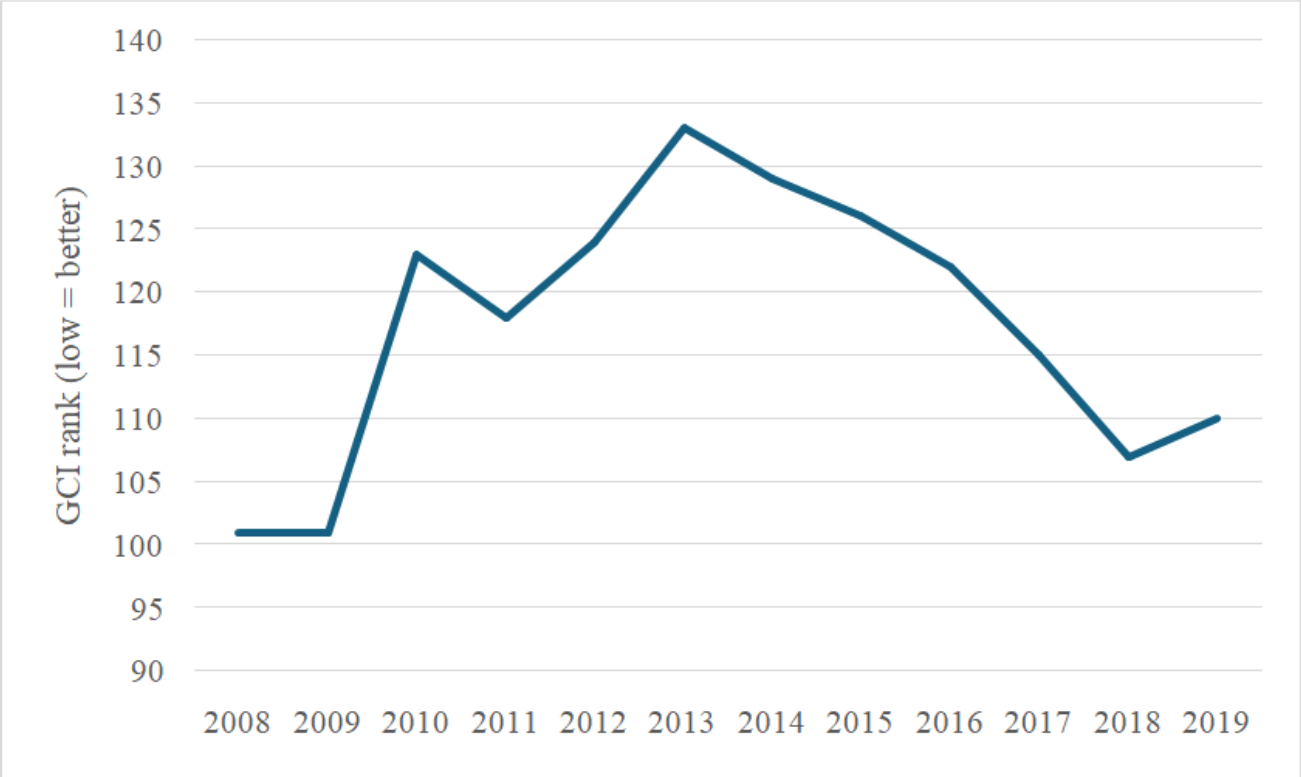
The National Tariff Commission would do better to commit to its core functions, i.e., a transparent and rationalized tariff structure with low average tariffs, minimal dispersion and less discretion to provide a level playing field for all firms, rather than provide tariff incentives that would have distortionary impacts on the economy.

86 https://pide.org.pk/research/national-tariff-policy-2019-24/
87 https://finance.gov.pk/survey/chapter_24/8_trade%20and%20payments.pdf

Annex D: Assessment of overall cost of doing business

The horizontal constraints to overall readiness of firms to export from Pakistan are captured by various globally computed indices. The Global Competitiveness Index (GCI) is calculated by the World Economic Forum and analyses competitiveness along 12 pillars: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication and innovation. Over 2008 to 2019 (the latest year available), Pakistan slipped from 101 to 110th place out of 141 countries. Pakistan's declining competitiveness over time has contributed to its weak trade performance. In the latest Global Competitiveness Index (GCI 2019), Pakistan ranked 110th out of 141 countries (Figure 2). It declined three places from 2018, performing particularly poorly on ICT adoption (ranked 127th), product market (ranked 122nd) and the labor market (where it ranks 121st). Pakistan remains in the lowest quartile of countries in terms of competitiveness.

Figure A4.1 Pakistan's ranking on the Global Competitiveness Index, 2008-2019



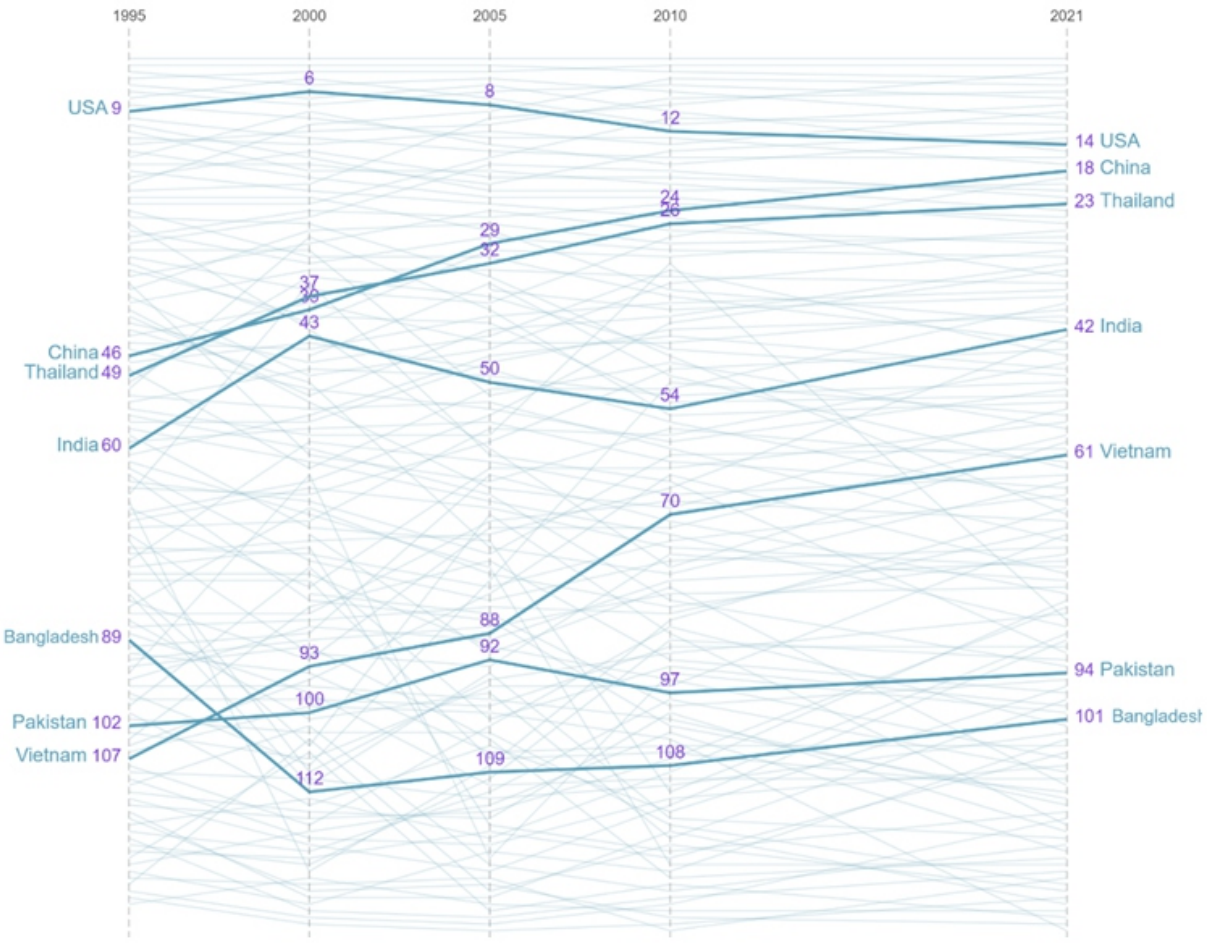
Note: Ranking is out of 141 countries

Source: World Economic Forum (2019). Global Competitiveness Index. Data from https://prosperitydata360.worldbank.org/en/dataset/WEF+GCI

88 Source: World Economic Forum (2019). Global Competitiveness Index. Data from https://prosperitydata360.worldbank.org/en/dataset/WEF+GCI

Another indicator of export readiness is the ability to take advantage of global opportunities, which is estimated using the Economic Complexity Index (ECI).[89] Economic complexity quantifies the amount of knowledge stock in an economy based on its product offerings for the local and more importantly, global markets. It is measured by both the range and uniqueness of products offerings. As per the most recent ECI, Pakistan ranks 94th out of 133 countries in terms of the complexity of products it exports. In the last 10 years, Pakistan has fallen 4 positions, indicating that its exports have become relatively less complex in an increasingly complex world. This shows that Pakistan has been unable to diversify its exports, particularly in making products that add value and are unique. Its top products continue to be restricted to textiles and agriculture products, which are low complexity products. It is instructive to look at Pakistan and Vietnam since 1995. Pakistan was performing slightly better than Vietnam in 1995 (102nd vs 107th), but Vietnam managed to raise its Economic Complexity of ranking from 107 to 61 by 2021 (Figure 3). India and China are ranked 42nd and 18th respectively.

Figure A4.2 Increasing economic complexity of our competitors: 1995-2021



Note: Rank out of 127 countries, a higher rank is better.
Source: Harvard Atlas of Economic Complexity. https://atlas.cid.harvard.edu/rankings.

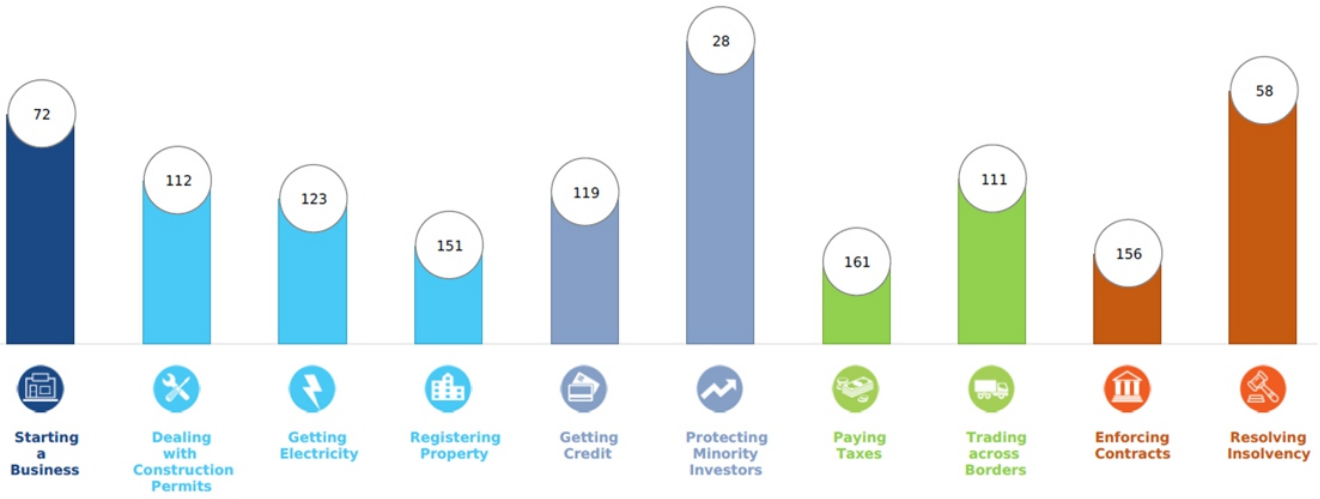
89 Ranking of countries based on how diversified and complex their export basket is. Retrieved from https://atlas.cid.harvard.edu/countries/168

Vietnam offers many lessons for Pakistan, especially the benefits of global economic integration through trade. Vietnam was able to improve firm productivity and complexity of exports by openness to trade. There is considerable evidence to support the idea that exports lead to productivity growth and vice versa.[90] But the ability to export is not only determined by internal firm characteristics, but also on the overall business environment of a country. Firms' growth can be constrained by distortions in the business environment in which they operate. Cumbersome processes and opaque procedures as well as lack of enabling infrastructure or policies can lower the returns to investment and raise the cost of doing business, making exporting even harder.

According to the most recent Doing Business (2020) before the index was discontinued, Pakistan was amongst the top 10 improvers over the previous 5 years in streamlining processes across 12 sub-indicators. The DB scores processes for business incorporation, getting a building permit, obtaining an electricity connection, transferring property, getting access to credit, protecting minority investors, paying taxes, engaging in international trade, enforcing contracts, and resolving insolvency.[91] Pakistan's rank improved from 147th to 108th out of 190 economies. This improvement was driven by key reforms, including the establishment of an online platform for business registration, the elimination of certain registration fees, and streamlined processes for construction permits. Pakistan displayed particularly strong progress in areas like business incorporation, where it introduced an online one-stop shop and eliminated the corporate seal requirement, significantly shortening the time to start a business. However, it still fared poorly in Enforcing Contracts, Paying Taxes, Getting Credit, Trading Across Borders and Registering Property, which contributed to a much lower ranking vis-à-vis India and China at 68th and 31st, respectively.[92] A comparison of the time and cost to trade across borders in Pakistan relative to its regional competitors is presented in 4.1.

90 See World Bank (2022). From swimming in sand to xx.
91 Retrieved from https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf
92 World Bank (2020). Doing Business 2020: Comparing Business Regulation in 190 Economies P.4. Retrieved from https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf

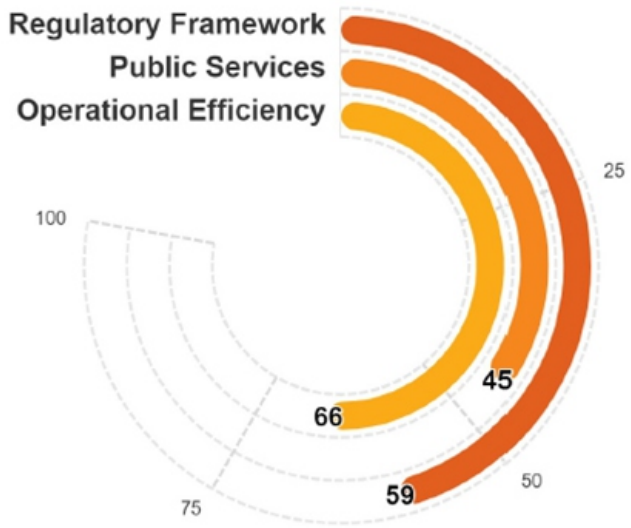
Figure A4.3 Doing Business 2020



Source: World Bank (2020). Doing Business 2020.
https://www.doingbusiness.org/content/dam/doingBusiness/country/p/pakistan/PAK.pdf

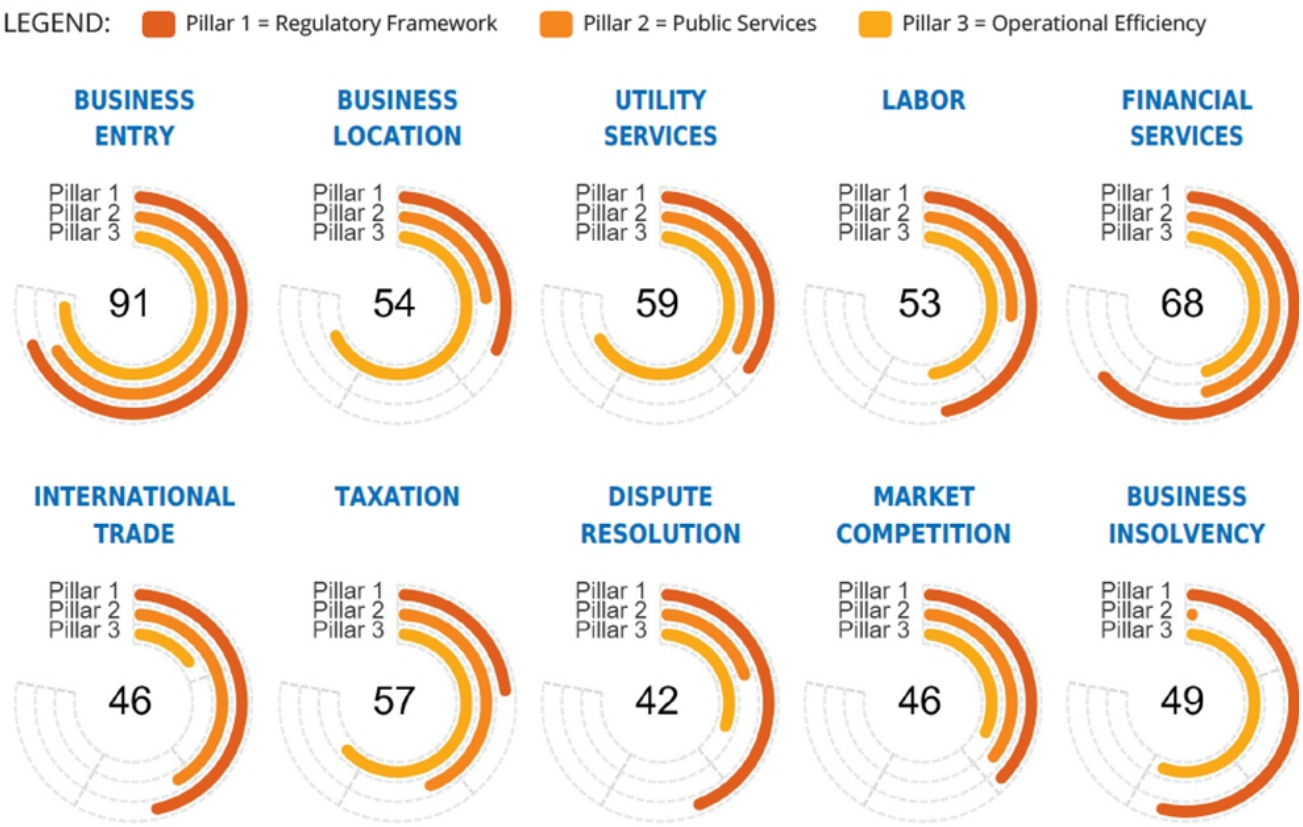
The Business Ready Index (B-READY, World Bank) has replaced the Doing Business Indicator to provide a more comprehensive assessment of the strength of regulatory frameworks, public services and operational efficiency in an economy. It measures the "business-friendliness" of a country, i.e. how successful it is in reducing regulatory complexities and cutting costs. Doing so would Pakistan formalize its economy, enhance tax revenues, and improve public infrastructure. In the overall index, Pakistan scores weakest in availability of public services—both physical and digital infrastructure— to support businesses (Figure 4).

Figure A4.5 B-Ready Index 2023



Within the sub-indicators, the weakest scores are in International Trade (46/100) and Dispute Resolution (42/100).

Figure A4.6 B-Ready sub-indicators, 2023



Source: World Bank (2024). Business Ready. Retrieved from https://www.worldbank.org/en/businessready/economy/pakistan

Annex E: Regulatory reforms to lower trade and business costs

Pakistan Regulatory Modernization Initiative (2019)

There are many ongoing projects and interventions to lower the cost of trading in Pakistan, many of them under the Pakistan Regulatory Modernization Initiative (PRMI) initiated in 2019, with BOI as its lead agency. BOI has developed an electronic registry to simplify and modernize regulatory requirements of businesses, at the federal, provincial and local levels, including registrations, licenses, certificates and other permits (RLCOs). At the same time, unnecessary laws or regulations are being removed using the guillotine approach.[93] To date, a total of 163 reforms in 32 sectors have been introduced, involving 92 departments.[94] The Asaan Karobar Bill has been passed to provide institutional cover for the regulatory reforms of the PRMI and to create a National Regulatory Delivery Office (NRDO), which will serve as the secretariat of the Pakistan Business Portal (see below).

BOI has adopted an Investor Information Management System to support investment promotion activities across the investment cycle (spanning investment attraction, entry & establishment, retention & expansion and linkages & spillovers) and to implement KPIs for its federal/provincial investment promotion agencies. This is the basic requirement of effective investment promotion and is therefore a much-needed step in the right direction. Pakistan Customs/FBR has introduced a Risk Management System (RMS) to facilitate the clearance for imports intended for use in exports via the Web Based One Customs (WeBOC). Pakistan Customs uses the RMS to facilitate exports of registered compliant firms via a Green Channel (50% of export clearance is under this channel) with only less compliant firms subject to scrutiny. This has considerably lowered the time taken for documentary and overall border compliance to export from 2.5 and 3 days down to a day.[95]

Progress, albeit slow, has also been made on the national One Stop Shop (OSS) called the Pakistan Business Portal, which is being funded by the Digital Economy Enhancement Project (DEEP). Legal cover for the portal and its secretariat has been instituted through the soon to be enacted Asaan Karobar Bill.[96] Initial phases of the development of an e-registry for business regulations have been completed and have been shared with DRAP and SECP. To expedite businesses, the OSS will automate business and regulatory procedures via a “system of

93 PRMI. Retrieved from https://business.gov.pk/about-prmi/
94 RSM Pakistan (2024). Budget Insight 2024-25: Road to Recovery. Retrieved from https://www.rsm.global/pakistan/sites/default/files/media/documents/RSM%20Budget%20Insight%202024-25.pdf
95 https://www.fbr.gov.pk/fbrs-ongoing-reforms-lead-to-huge-improvement-in-trading-across-borders-index/152819
96 https://tribune.com.pk/story/2471551/pm-greenlights-enactment-of-asaan-karobar-act

systems", i.e., by unifying all business and regulatory portals. Business will be able to digitally identify sector-wise regulatory requirements, submit electronic applications, and pay the licenses/permits fee online.[97]

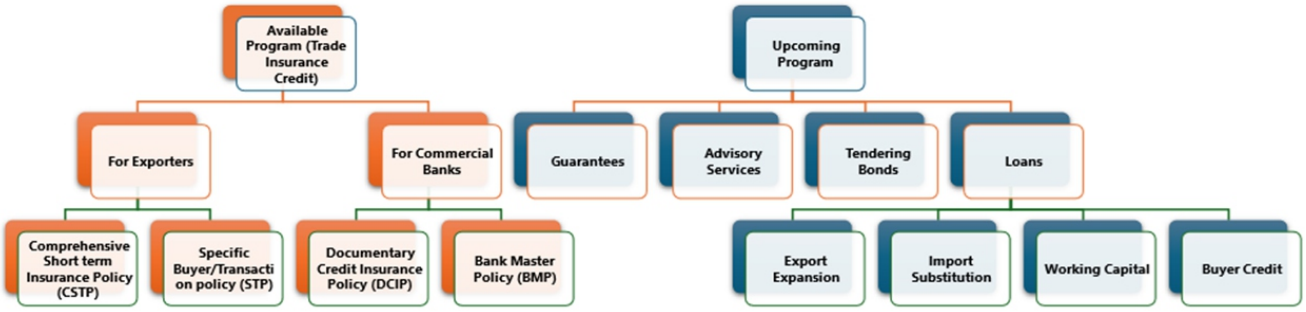
97 https://business.gov.pk/about-prmi/#:~:text=Pakistan%20Regulatory%20Modernization%20Initiative%20(PRMI,Minister%20on%20Commerce%20and%20Investment.

Annex F: Export-Import Bank of Pakistan

EXIM Banks help businesses export their goods abroad and import their production inputs by providing financial support through credit lines, loans, loan guarantees and insurance solutions. The EXIM Bank of Pakistan was established as a Development Finance Institution (DFI) under Export-Import Bank of Pakistan Act, 2022 (XXII of 2022) and was operationalized in December 2023. Its role is to support, develop, and promote trade, aiming to increase the competitiveness of Pakistan's products in the international market. Recently, the bank has been given the task of implementing the SBP revised Export Refinance Scheme. Only the modality of fund distribution has changed, so that instead of borrowing from SBP directly, commercial banks will initially use their own liquidity to lend and can subsequently claim a subsidy from the Government, which will be given through EXIM Bank.[98]

The Bank is offering Trade Credit Insurance (referred to alternatively as Export Credit Insurance), under two pathways, namely for exporters and commercial banks along with other upcoming programs (Figure).

Figure A6.1EXIM Bank of Pakistan: Programs



Source: EXIM Bank.

98 https://eximbank.gov.pk/export-import-bank-of-pakistan-exim-bank-inaugurated-releases-first-trade-credit-insurance-policies/

Annex G: Pharmaceuticals

This sector was not selected by our analytical methodology. However, in discussions of the Inception Report, we understood that the Ministry of Commerce would be interested in our assessment of this sector as well.

Pakistan's pharmaceutical exports are poised to cross the $1 billion mark by 2029. Pakistan mostly exports branded generics (copies of synthetic drugs that are therapeutically equivalent to brand name drugs) worth around $310 million, with nutraceuticals adding another $100-150 million, for a total of $450 million. Industry feels that changes in the regulatory framework of the sector could support the creation of scale in the sector. The recent deregulation of non-essential drugs has helped ease some of the pressures associated with high costs of raw material prices, energy and borrowing in the pharmaceutical sector. This reform is part of broader changes being made in the regulatory framework of the highly controlled pharmaceutical sector, under the ownership of the Drug Regulatory Authority of Pakistan (DRAP), which stakeholders see as a welcome change in the direction of more market-driven reforms.

Heavy regulation had led to shortages of essential medicines, while many non-essential drugs were made at a loss if produced or were simply unviable at the regulated price. Deregulation of non-essential drugs has already begun to spur value addition in the sector, as firms have ventured into biologics (for essential drugs such as insulin and heparin) and non-essential drugs including biosimilars, such as GLP-1 at a quarter if the global price. These are products that are globally relevant and also have high domestic demand, and there is scope for further value addition, for example for insulin, entering the market for insulin pens/cartridges.

Similarly, firms have the capacity and are ready to invest resources in simpler biologics like vaccines, given that Pakistan requires almost 1.5 billion vaccines over the next 5 years, almost 85% of which are bought by the Pakistan government for its Expanded Program for Immunization (EPI). Currently, the government buys these vaccines at subsidized prices on long-term arrangements from donor agencies like GAVI (Global Alliance for Vaccines and Immunization) or UNICEF. Manufacturers cannot compete with these lower prices and instead suggest that the government as the principal buyer should give them a buyback guarantee for vaccines manufactured in Pakistan. This has been successfully done in Bangladesh. The transition would require moving from imports to local fill and finish of imported vaccines in Stage 1 and then in Stage 2 to producing active pharmaceutical ingredients (API) and excipients for complete domestic manufacture. The transition could take 5-6 years.

Industry participants feel that their strength lies in formulation. Pakistan is conveniently located between the two largest producers of active pharmaceutical ingredients in the world. APIs are the primary input in the pharmaceutical sector and about 88% of APIs used in manufacturing are imported (from India and China). Pakistan could add value to its export offerings with an enabling business environment and conducive regulations. Furthermore, the sector now has multiple WHO approved manufacturing plants and 6-7 facilities that have been approved under Pharmaceutical Inspection Co-operation Scheme (PIC/S), which is a remarkable improvement from just 5 years ago. It appears that the World Health Organization (WHO) will soon upgrade the maturity of Pakistan's national medicines regulatory authorities to Maturity Level 3. This will help Pakistan participate in global health initiatives, such as WHO's Prequalification Program and international procurement programs.

The main export destinations are southeast Asia and Africa, but Latin America and East Europe have also been explored. The African market has not been tapped fully, and India is a big competitor there. The main challenge in exploring markets is the upfront costs of entering. Given the complexities of the sector and differential requirements and standards set by different countries, exporting requires accurate diagnosis of target markets and a realistic assessment of firm capabilities. Stakeholders posit that a comprehensive report done by an internationally credible company such as IQVIA may cost up to $300,000 per product per market. In addition, the firm exporting must arrange for sales/marketing (pharmaceutical representatives) and a distribution network (warehousing and logistics), which due to the highly regulated nature of the sector can be very cumbersome and costly. Exporters feel that due to the front-loaded nature of investments required in the destination market, the permissible retention of foreign exchange export earnings by SBP should be raised, making a case similar to the IT services sector for which 50% of export earnings can be retained.

Source: Stakeholder consultations. Mukhtar, N., Khan, U., Sheikh H. (2021). Unleashing the competitiveness of the Pharmaceutical Sector. CDPR.

ENHANCING PAKISTAN'S COMPETITIVENESS IN NON-TEXTILE AND NON-FOOD EXPORTS

cdpr