# Import Substitutions and Export Promotion for Improving Balance of Trade

*Ms. Shaista Ghazi* [1], *Mr. Muhammad Tanveer Khalid* [2], *Syed Mazhar Ali Shah* [3], *Mr. Jehanzeb Khan Orakzai* [4]

KJPP

***Citation:***
*Ghazi, S., Khalid, M. T., & Shah, S. M. A. (2024). Prime Minister's Task Force for Import Substitutions and Export Promotion for Improving Balance of Trade. Khyber Journal of Public Policy, 3(3), Autumn, 261-296*

***Article Info:***
*Received: 24/09/2024*
*Revised: 25/10/2024*
*Accepted: 01/11/2024*
*Published:03/12/2024*



## *Abstract:*

*This paper examines Pakistan's persistent trade deficit and explores strategies for addressing it through import substitution and export promotion. It evaluates past trade policies and provides an in-depth analysis of the Strategic Trade Policy Framework (STPF) 2020-25, emphasizing sectoral collaboration and targeted interventions. By benchmarking Pakistan's policies against successful global trade models, such as those of Singapore and Germany, the paper identifies areas for improvement, including trade digitization, export financing, and market diversification. A SWOT analysis highlights the strengths, weaknesses, opportunities, and threats in Pakistan's trade institutions, while a PESTLE analysis examines the broader political, economic, social, technological, legal, and environmental factors affecting trade. The paper proposes a transformative strategy inspired by global best practices, including trade policy digitization, the establishment of an export bank, and market diversification initiatives. It also advocates for aggressive local content policies and the creation of a development bank to support domestic manufacturing. These measures aim to drive sustainable economic growth and enhance Pakistan's trade resilience.*

## *Key words:*
*Trade Deficit, Import Substitution, Export Promotion, Strategic Trade Policy, Market Diversification.*

[1] *Office Management Service -Govt. of Gilgit Baltistan, Email: shaistaghazi@gmail.com*
[2] *Inland Revenue Service-Govt. of AJ&K, Email: thekhalid04@gmail.com*
[3] *Provincial Management Service, Email: mazharali79@yahoo.com*
[4] *Faculty Member, National Institute of Public Administration (NIPA), Peshawar*

## *Introduction*

Pakistan's trade deficit has been a persistent issue, hindering economic growth and development. The country's imports have consistently exceeded its exports, resulting in a significant trade deficit (Abdul Ghafoor Awan, 2019). As a result, the country's foreign exchange reserves have declined, leading to a depreciation in the value of the Pakistani rupee. The trade deficit has also limited the country's ability to invest in development projects, ultimately hindering economic growth (Israr Ahmed, 2022).

Pakistan's trade scenario is characterized by a heavy reliance on imports to meet domestic demand (Khan, 2023). The country imports a significant amount of machinery, electronics, and raw materials, while its exports are primarily composed of textiles, clothing, and food products. This imbalance is due to various factors, including a lack of competitiveness, inadequate infrastructure, and inefficient trade policies (Allah Bux Lakhan, 2021).

Import substitution and export promotion are two strategies that have been proposed to address Pakistan's trade deficit. Import substitution involves promoting domestic production to replace imports, while export promotion focuses on incentivizing exporters to increase exports (Muhammad Asif, 2021). These strategies have been successfully implemented in various countries, including India, China, and South Korea, contributing to their economic growth and development (Amsden, 2004).

In the context of Pakistan, import substitution and export promotion offer a promising solution to the country's trade deficit. By promoting domestic production and increasing exports, Pakistan can reduce its reliance on imports, increase foreign exchange earnings, and promote economic growth (Shahid Satar, 2023). However, the implementation of these strategies requires careful planning, coordination, and execution. This paper highlights the formation and impact of the Prime Minister's Task Force, which drives these initiatives, emphasizing the importance of import substitution, industrialization, and strategies for boosting Pakistan's exports. By examining the synergy between these strategies, the analysis aims to shed light on their collective impact on Pakistan's balance of trade.

## *Statement of the Problem*

Pakistan's persistent trade deficit, resulting from a heavy reliance on imported goods and a lack of competitiveness in exports, has hindered economic growth and development. The country's trade deficit has consistently exceeded 5% of GDP, posing a significant threat to macroeconomic stability. This has led to the depletion of foreign exchange reserves, increased inflation, and rising poverty levels. This research aims to investigate the potential of import substitution and export promotion strategies to address these challenges and improve Pakistan's balance of trade, with the goal of informing policy decisions aimed at promoting economic growth and development.

## *Scope of the Study*

This research paper aims to explore the potential of import substitution and export promotion as strategies for improving Pakistan's balance of trade. The paper will examine the current trade scenario, identify areas for improvement, and discuss the benefits and challenges of implementing import substitution and export promotion policies. The findings of this research will provide valuable insights for policymakers, entrepreneurs, and other stakeholders interested in promoting Pakistan's economic growth and development.

## *Research Methodology*

The research employs a mixed-methods approach, combining both quantitative and qualitative data to examine Pakistan's trade dynamics.

### Situational Analysis of the Export Sector and Its Contribution to the Economy of Pakistan

### Contributions of Pakistan's Export Sector to the Economy:

The contributions of Pakistan's export sector are both quantifiable and far-reaching. Export earnings constitute a substantial portion of the country's GDP, accounting for over 10% of total output. In the fiscal year 2020-21, Pakistan's exports surpassed the $25 billion mark, highlighting the sector's significant economic contribution. Furthermore, export revenues play a vital role in stabilizing the balance of payments, with the trade surplus reaching $3.3 billion in the same fiscal year (Bader, 2006; Pakistan Development Update: Reviewing Exports, 2021).

Moreover, the export sector serves as a key engine for employment generation, particularly in rural areas. The textile industry alone employs over 15 million people, making it the largest source of industrial employment in Pakistan (Pakistan Bureau of Statistics, External Trade Section I. Report on External Trade, 2023). Additionally, export-oriented industries attract foreign direct investment (FDI), facilitating technology transfer, skills development, and infrastructure enhancement. In the fiscal year 2020-21, Pakistan attracted FDI worth $2.78 billion, with significant investments in sectors such as manufacturing, services, and telecommunications.

*Top Export Destinations Showing Decrease (Trade Values in USD Million)*

| Export Destinations | July-June Fy'2022-23 | July-June Fy'2021-22 | % Change |
|---|---|---|---|
| **United States** | 5,285 | 6,831 | -22.60% |
| **China** | 2,555 | 3,058 | -16.40% |
| **United Kingdom** | 1,920 | 2,167 | -11.40% |
| **Netherlands** | 1,576 | 1,662 | -5.20% |
| **Germany** | 1,567 | 1,771 | -11.50% |
| **Belgium** | 711 | 799 | -11% |
| **Bangladesh** | 705 | 953 | -26.10% |
| **France** | 493 | 512 | -3.80% |
| **Canada** | 370 | 464 | -20.30% |
| **Malaysia** | 369 | 467 | -20.90% |

*Source: Trade Development Authority of Pakistan (TDAP)*

*Top Export Destinations Showing Increase (Trade Values in USD Million)*

| Export Destinations | July June Fy2022-23 | July-JuneFy2021-22 | % Change |
|---|---|---|---|
| **Spain** | 1,432 | 1,249 | 14.60% |
| **United Arab Emirates** | 1,416 | 1,348 | 5.10% |
| **Italy** | 1,173 | 1,137 | 3.20% |
| **Afghanistan** | 984 | 733 | 34.20% |
| **Saudi Arabia** | 562 | 423 | 32.80% |
| **Kenya** | 311 | 264 | 17.80% |
| **Tanzania** | 167 | 122 | 36.80% |
| **Indonesia** | 152 | 128 | 18.70% |
| **Greece** | 135 | 120 | 12% |
| **Mexico** | 131 | 108 | 20.90% |

*Source: Trade Development Authority of Pakistan (TDAP)*

| Import Sources | JULY-JUNE FY 2023 | JULY-JUNE FY 2022 | % Change |
|---|---|---|---|
| Singapore | 965 | 904 | 7% |
| Afghanistan | 893 | 801 | 11% |
| Iran | 881 | 774 | 14% |
| Russian Federation | 846 | 458 | 85% |
| Oman | 812 | 796 | 2% |
| Australia | 772 | 477 | 62% |
| Canada | 492 | 307 | 61% |
| Argentina | 261 | 199 | 31% |
| Romania | 237 | 68 | 249% |
| Nigeria | 211 | 154 | 36% |

***Top Import Sources Showing increase (Trade Values in USD Million)***

*Source: Trade Development Authority of Pakistan (TDAP)*

***TOP IMPORT SOURCES SHOWING DECREASE (FY2023 V/S FY2022)***

| Import Sources | JULY-JUNE FY2023 | JULY-JUNE FY2022 | % Change |
|---|---|---|---|
| China | 11702 | 20839 | -44% |
| UAE | 5501 | 8663 | -37% |
| Indonesia | 4319 | 4619 | -6% |
| Saudi Arabia | 4190 | 5148 | -19% |
| Qatar | 3567 | 3582 | 0% |
| Kuwait | 2254 | 3081 | -27% |
| United States | 2033 | 3764 | -46% |
| Japan | 1053 | 2194 | -52% |
| Thailand | 1010 | 1798 | -44% |
| Malaysia | 890 | 1302 | -32% |

*Source:(Ministry of Commerce | Government of Pakistan)*

Pakistan's export sector stands as a cornerstone of its economy, poised with immense potential and formidable challenges. Nestled at the nexus of Asia, Europe, and the Middle East, Pakistan's strategic geographic location provides access to pivotal global markets. This positioning, complemented by a rich tapestry of natural resources spanning agriculture, minerals, and textiles, underscores the country's significant export potential. Moreover, burgeoning sectors such as information technology, pharmaceuticals, and engineering goods offer promising avenues for diversification and growth (Ayesha Afgun, 2022; Pakistan Export Data | Pakistan Trade Data, n.d.).

Pakistan's export potential is substantiated by concrete data. The nation's geographic positioning enables it to access over 3 billion people across South Asia, Central Asia, and the Middle East, constituting a vast market for its exports. Additionally, Pakistan ranks among the top producers of key export commodities, including cotton (the fourth-largest producer globally), rice (the fourth-largest exporter), and leather goods (a major player in the global leather industry). These resources serve as the bedrock for export-oriented industries, driving economic growth and international trade (Pakistan Export Data | Pakistan Trade Data).

Furthermore, the emergence of non-traditional export sectors highlights the country's diversification efforts. Pakistan's IT exports during July-March FY2022 surged to US $1.948 billion, marking a growth rate of 29.26 percent compared to US $1.5 billion in the same period last year. These include telecommunication, computer, and information services (Pakistan Economic Survey, 2022). Similarly, the pharmaceutical industry, with an export value of $3.29 billion in 2023, contributing approximately 1% to the country's GDP, is another significant emerging sector (Pakistan Export Strategy Pharmaceuticals, 2023).

**Potential Sectors for Import Substitution and Export Promotion**

The priority sectors were identified by analyzing international demand trends and assessing the capacity and capabilities of Pakistan's various export sectors. The main guiding principle was to focus efforts and interventions on sectors that offer the greatest export opportunities and potential returns. Additionally, the process was aligned with the government's broader policy priorities in textiles, agriculture, engineering, automotive, food processing, pharmaceuticals, and services. The Ministry of Commerce has designated the following priority sectors, divided into traditional and developmental categories.

| Traditional Sectors | Developmental Sectors |
|---|---|
| 1. Textile &Apparel<br>2. Leather<br>3. Surgical Instruments<br>4. Sports Goods<br>5. Carpets<br>6. Rice<br>7. Cutlery | 1. Engineering Goods(incl. Auto Parts)<br>2. Pharmaceutical<br>3. Marble &Minerals<br>4. Processed Food & Beverages<br>5. Footwear<br>6. Gems & Jewelry<br>7. Chemicals<br>8. Meat &Poultry<br>9. Fruits &Vegetables<br>10. Sea Food<br>11. Services Sector (Special focus on IT, Transport, Logistics & Tourism) |

*Source: (Ministry of Commerce | Government of Pakistan)*

**Pakistan Export Sector's Potential**

Pakistan has a diverse range of export products, including textiles, agricultural goods, sports goods, and surgical instruments. The country's strategic location, serving as a gateway to the Middle East, Central Asia, and South Asia, provides significant logistical advantages for trade.

**Potential of the Textiles and Apparel Sector in Pakistan**

Pakistan's textiles and apparel sector is a cornerstone of the country's economy, holding significant potential for growth and development. This sector's potential is rooted in several key factors, including abundant raw materials, a skilled workforce, and strategic government initiatives.

**Abundant Raw Materials**

The country's favorable climate and extensive agricultural base support high cotton yields, providing a steady supply of raw materials for textile manufacturing. This domestic availability of cotton not only reduces dependency on imports but also lowers production costs, giving Pakistan a competitive edge in the global market.

**Skilled Workforce**

The industry employs millions of workers, many of whom possess specialized skills in spinning, weaving, dyeing, and garment manufacturing.

## Government Initiatives and Policies

The Pakistani government has implemented several initiatives to bolster the textiles and apparel sector. These include financial incentives, tax rebates, and subsidies aimed at enhancing production capacity and export competitiveness.

1. **Textile Policy 2020-2025**: This policy aims to increase textile and apparel exports to $25 billion by 2025 through various measures such as technological upgrades, infrastructure development, and market diversification (RDA Cell, Ministry of Commerce).
2. **Duty Drawback of Taxes (DDT)**: This scheme provides rebates on the taxes paid on inputs used in the manufacturing of export goods, thereby reducing the cost of production and enhancing competitiveness.

## Potential of the Agriculture Sector in Pakistan

With a large agrarian base, Pakistan has the potential to increase its exports of rice, fruits (especially citrus and mangoes), and vegetables. The development of agro-based industries can also enhance value addition and export revenues. The agriculture sector in Pakistan is a critical component of the country's economy, contributing significantly to GDP, employment, and exports.

## Contribution to GDP and Employment

The agriculture sector is a cornerstone of Pakistan's economy, contributing 19.3% to GDP and employing 38.5% of the labor force. This underscores the sector's importance in providing livelihoods and supporting economic stability.

## Major Crop Production

The production data for major crops such as wheat, rice, maize, sugarcane, and cotton highlight the sector's capacity to sustain both domestic needs and export demands. For instance, wheat production stands at 26 million tons, which is a significant portion of the country's staple food supply.

## Export Destinations

The United States, European Union, and China are significant markets for Pakistani agricultural products. The diversification of export destinations indicates broad market appeal and potential for expansion.

**Product Breakdown**

Rice is the leading agricultural export product, followed by fruits and vegetables. This diversification within agricultural exports demonstrates the sector's ability to cater to various international markets and consumer preferences.

**Potential of the Information Technology Sector in Pakistan**

Pakistan's Information Technology (IT) sector has shown significant growth in recent years, emerging as a key player in the global IT landscape.

**Contribution to GDP and Employment**

The IT sector contributes 1.5% to Pakistan's GDP and employs over 300,000 professionals. The sector's rapid growth and high employment potential demonstrate its critical role in the country's economy.

**Growth in IT Exports**

The growth in IT exports from $300 million in 2010 to $3.5 billion in 2023 showcases a remarkable annual growth rate of approximately 20%. This indicates a robust upward trajectory and a strong foundation for future expansion.

**Major Export Destinations**

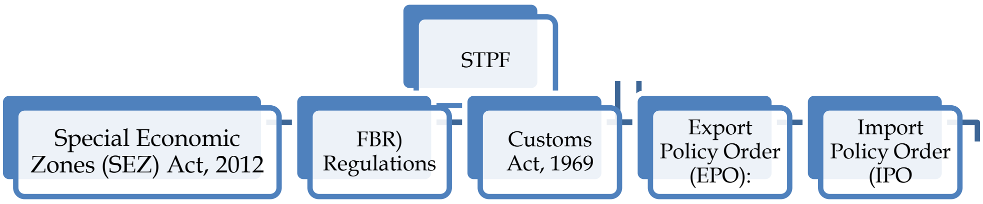
The United States, United Kingdom, and Canada are the primary markets for Pakistani IT services, accounting for a significant portion of the export revenue. This indicates strong international demand and the global competitiveness of Pakistan's IT sector.

**Service Type Breakdown**

Software development is the leading export service, followed by IT-enabled services, BPO services, and freelance work. This diversity in service offerings highlights the sector's versatility and ability to cater to various segments of the global market.

**Existing Legal and Institutional Framework for Promotion of Exports and Substitution of Imports in Pakistan**

The legal and institutional framework for promoting exports and substituting imports in Pakistan is comprehensive, encompassing various laws, regulations, and organizations dedicated to enhancing the country's trade performance. The government's commitment to developing and implementing trade policies, coupled with the efforts of key institutions like the Ministry of Commerce, TDAP, FBR, and SBP, reflects a concerted effort to boost economic growth through strategic trade management. Below are the legal and institutional organizations working to promote exports and substitution of imports in Pakistan.




**Trade Policy Framework**

Pakistan's trade policies are primarily shaped by the Strategic Trade Policy Framework (STPF), which outlines the country's trade objectives, strategies, and initiatives for a specified period. The STPF aims to enhance export competitiveness, diversify the export base, and promote value addition. The framework includes various incentives for exporters, such as reduced tariffs on raw materials and semi-finished goods, tax holidays, and subsidies for export-oriented industries.

**Import Policy Order (IPO)**

The IPO governs the import of goods into Pakistan. It includes regulations aimed at controlling the import of luxury items, reducing the import bill, and encouraging the consumption of domestically produced goods. The IPO also lists items that are banned or restricted for import, aligning with the import substitution policy by promoting local manufacturing.

**Export Policy Order (EPO)**

The EPO sets the rules and regulations for exporting goods from Pakistan. It includes measures to streamline export procedures, reduce bureaucratic hurdles, and provide incentives to exporters. The EPO is designed to make Pakistani exports more competitive in international markets by simplifying the export process and reducing costs.

**Customs Act, 1969**

This act regulates the import and export of goods, ensuring compliance with trade policies. It provides the legal basis for customs duties, procedures for import and export clearances, and measures to prevent smuggling. Amendments to the Customs Act are often made to facilitate trade and align with international best practices.

**Federal Board of Revenue (FBR) Regulations**

The FBR is responsible for tax administration, including customs duties, sales tax, and income tax related to imports and exports. FBR regulations aim to simplify tax procedures, reduce the cost of compliance, and provide tax incentives to exporters.

**Special Economic Zones (SEZ) Act, 2012**

This act provides the legal framework for the establishment of SEZs in Pakistan. SEZs offer a range of incentives, including tax holidays, duty-free import of machinery, and streamlined regulatory procedures, to attract investment in export-oriented industries and promote import substitution.

**Institutional Framework**

**Ministry of Commerce**

The Ministry of Commerce is the primary government body responsible for formulating and implementing trade policies in Pakistan. It oversees the development and execution of the Strategic Trade Policy Framework, negotiates trade agreements, and promotes Pakistani exports globally.

**Trade Development Authority of Pakistan (TDAP)**

TDAP is the principal agency tasked with promoting and developing Pakistan's exports. It provides support to exporters through market research, trade missions, international exhibitions, and capacity-building programs. TDAP also collaborates with international trade bodies to enhance market access for Pakistani products.

**Federal Board of Revenue (FBR)**

The FBR administers customs and tax policies related to imports and exports. It plays a crucial role in facilitating trade by streamlining customs procedures, reducing clearance times, and ensuring compliance with trade regulations. The FBR's efforts to modernize customs processes aim at enhancing trade efficiency and reducing costs for exporters and importers.

**State Bank of Pakistan (SBP)**

The SBP implements monetary and exchange rate policies that affect trade. It provides various financial incentives to exporters, including concessional financing through the Export Finance Scheme (EFS) and the Long-Term Financing Facility (LTFF). The SBP also works to ensure a stable exchange rate environment, which is crucial for trade competitiveness.

**Board of Investment (BOI)**

The BOI promotes foreign direct investment (FDI) in Pakistan, particularly in sectors that contribute to export growth and import substitution. It facilitates investors by providing information, coordinating with relevant government departments, and ensuring a conducive business environment. The BOI's efforts are geared towards attracting investment in manufacturing, technology, and other high-value sectors.

**Pakistan Customs**

An arm of the FBR, Pakistan Customs is responsible for regulating the flow of goods in and out of the country. It plays a critical role in enforcing import and export policies, collecting duties, and preventing illegal trade. Pakistan Customs is also involved in trade facilitation initiatives, such as the implementation of the Pakistan Single Window (PSW) project, which aims to simplify trade processes.

**Small and Medium Enterprises Development Authority (SMEDA)**

SMEDA supports the development of small and medium enterprises (SMEs), which are crucial for both import substitution and export growth. It provides technical assistance, business development services, and access to finance for SMEs, helping them enhance their competitiveness and integrate into global value chains.

**Engineering Development Board (EDB)**

The EDB promotes the engineering sector in Pakistan, focusing on increasing local production of engineering goods to substitute imports and boost exports. It facilitates industry linkages, provides technical support, and advocates for favorable policies to strengthen the engineering industry.

**Export Processing Zones Authority (EPZA)**

EPZA oversees the development and management of export processing zones (EPZs) in Pakistan. EPZs offer special incentives to manufacturers, such as tax exemptions and simplified customs procedures, to encourage export-oriented production and attract foreign investment.

**Chambers of Commerce and Industry**

Various chambers of commerce and industry associations play a significant role in advocating for the interests of the business community. They engage with the government on policy issues, provide input on trade regulations, and support businesses in navigating export and import procedures.

**Critical Appraisal of Previous Trade Policies**

Pakistan's previous trade policies have not been able to alter the export paradigm. These policies failed to address supply constraints due to weak emphasis on and implementation of long-term structural and systemic reforms.

Until 2008, the Ministry of Commerce (MOC) had been formulating Annual Trade Policies (ATPs). The ATPs were replaced by a holistic three-year policy, which remained operational until 2018. In 2020, the first five-year plan framework, the Strategic Trade Policy, was formulated and operationalized for the period 2020 to 2025 to broaden the scope of the policy and bring continuity and predictability.

The first three-year plan was launched for the years 2009-12, the second three-year plan was for 2012-15, and the third one was for 2015-18. Despite the policy initiatives and the inclusion of key export growth enablers, the goals stipulated in the previous policies were not achieved due to the following challenges:

- A lack of cohesion and ineffective coordination within the government hampered the successful implementation of the trade policy. The responsibility for executing key enablers was dispersed across various ministries and provinces.
- The absence of an effective monitoring and evaluation mechanism prevented the assurance of intervention effectiveness, as periodic reviews of the policies were not conducted.
- An unrealistic exchange rate was a major factor contributing to the continuous decline and stagnation in Pakistan's exports during the period of previous trade policies.
- High tariffs on primary and intermediate inputs also made Pakistan's exports non-competitive.
- The fragmented nature of the industry across all exporting sectors in the country, particularly in textiles, was another cause of stagnant export growth over the years. This fragmentation hindered the export of value-added goods, product innovation, standardization, and achieving real economies of scale.
- Inadequate disbursement of funds often led to partial or non-implementation of policy initiatives. For example, for the three-year trade policy 2015-18, out of the budget allocation of PKR 20 billion, only PKR 1 billion was released during the entire policy period.
- Policy advocacy by the industry remained mainly focused on protection-seeking rather than improving competitiveness and efficiencies.

- There was a policy disconnection with global production and value chains.
- A major cause of stagnation and decline in Pakistan's exports in recent years has been the disconnect between export growth strategies and investment policies, resulting in a lack of investment in export-oriented manufacturing.
- The policy instruments remained unchanged in previous trade policies.

**Strategic Trade Policy Framework (STPF) 2020-25**

Based on an analysis of past trade policies and an examination of the causes behind suboptimal export performance and gaps in policy implementation, it was decided to revisit the policy framework. This policy document will be dynamic, with provisions for periodic reviews of proposed interventions every six months and the introduction of new initiatives as needed. To achieve sustainable rapid export growth, a comprehensive strategy has been developed to:
(a) Optimize the growth of existing sectors in the short term,
(b) Diversify into new sectors identified through stakeholder engagement in the medium term, and
(c) Identify innovation-driven export sectors for support interventions in the long term.

**Pillars of STPF 2020-25**

This Strategic Trade Policy Framework is based on the following pillars:
(i) Making exports a national priority and the primary driver of inclusive and sustainable economic growth, while also serving as the main viable source of foreign exchange earnings.
(ii) Improving exports through a collaborative and unified national effort involving all relevant ministries, departments, government agencies, and the private sector to ensure policy coherence.
(iii) Introduction of strategic interventions in priority sectors under the "Make in Pakistan" initiative.
(iv) Aligning the trade policy with the macroeconomic framework and other national policies, including taxation, revenue, textiles, and industrial policy.

**Guiding Principles**

The following are the guiding principles of STPF:
(i) There will be no duties or taxes on exports. The duty drawback mechanism will be reviewed by the end of 2020-21 to simplify, ensure certainty, and automate it.
(ii) There shall be continuously competitive energy prices for export-oriented sectors.
(iii) Export enhancement support and incentive initiatives should be

simplified, made certain, automated, performance-oriented, and time-bound. The scope of initiatives should be expanded for priority sectors.
(iv) An institutionalized mechanism will be established for robust monitoring and implementation of the STPF to minimize policy implementation gaps. These gaps have traditionally been a weak link due to the multi-organizational roles in the export ecosystem.

**Comparative Analysis of Export Promotion and Import Substitution Policies: Pakistan vs. Global Best Practices**

**Export Promotion Policies (Pakistan's Approach)**

1. **Strategic Trade Policy Framework (STPF):** The STPF is designed to enhance export competitiveness, diversify the export base, and promote value addition. Key elements include duty drawbacks, export refinancing schemes, and tax exemptions. The framework targets specific export growth milestones, such as reaching $46 billion in exports by 2025.
2. **Export Policy Order (EPO 2022):** The EPO simplifies export procedures and provides financial incentives, like export rebates and tax exemptions. It aims to streamline export documentation and reduce costs for exporters, thereby improving global competitiveness.
3. **Trade Development Authority of Pakistan (TDAP 2006):** TDAP supports exporters through market research, trade missions, international exhibitions, and capacity-building programs. It collaborates with international trade bodies to enhance market access for Pakistani products.

**Global Best Practices**
**Singapore:**

- **TradeNet System:** Singapore's TradeNet is an electronic data interchange system that streamlines import, export, and transshipment documentation. This system has significantly reduced processing time and costs, making trade more efficient and competitive. With TradeNet, traders can submit their trade declarations and supporting documents electronically, eliminating the need for physical paperwork. This has reduced the processing time for trade declarations from several days to just a few hours (Case Study: Singapore TradeNet® | CrimsonLogic, n.d.).
- **Export Incentives:** Singapore offers various incentives to encourage export growth, including tax relief and grants for market development and export promotion. For example, the Singapore government provides a tax exemption scheme for foreign-sourced income, which allows companies to enjoy tax exemptions on their foreign-sourced income for up to five years. Additionally, the government offers grants for companies

to explore new markets, develop new products, and enhance their international competitiveness (SINGAPORE CUSTOMS, 2012).

**South Korea:**

- **KOTRA (Korea Trade-Investment Promotion Agency):** KOTRA is a government agency that provides comprehensive support to exporters, including market intelligence, trade missions, and financial incentives. KOTRA has a global network of offices that provide market research, trade facilitation, and investment promotion services to Korean companies. KOTRA also organizes trade missions and exhibitions to help Korean companies explore new markets and establish business relationships with foreign buyers (Korea Trade-Investment Promotion Agency - Company Profile and News - Bloomberg Markets, n.d.).
- **Export-Import Bank of Korea:** The Export-Import Bank of Korea provides financing solutions to support South Korean exporters in international markets. The bank offers a range of financial products, including export loans, guarantees, and insurance, to help Korean companies finance their export transactions. The bank also provides financing for foreign buyers to purchase Korean products and services (The Export-Import Bank of Korea (KEXIM) | Export Credit Agency (ECA) in Korea, n.d.).

**Germany:**

- **Trade Promotion Programs:** Germany's trade promotion programs, supported by institutions like the German Trade & Invest (GTAI), offer extensive market analysis, financial incentives, and export credit insurance. The GTAI provides market research and analysis to help German companies identify new business opportunities abroad. The agency also offers financial incentives, such as grants and loans, to support export growth. Additionally, the GTAI provides export credit insurance to protect German companies against non-payment risks in foreign markets (GTAI – Invest in Germany, n.d.).
- **Mittelstand Support:** Germany places a strong emphasis on supporting its SMEs (Mittelstand) through various export promotion initiatives. The German government provides a range of programs and services to help SMEs export their products and services, including training and consulting services, market research, and financial incentives. The government also provides support for SMEs to participate in trade fairs and exhibitions, and to establish business relationships with foreign buyers.

**Import Substitution Policies (Pakistan's Approach)**
**Import Policy Order (IPO 2022)**

- Regulates imports to protect domestic industries and conserve foreign exchange.
- Imposes higher tariffs on luxury items to discourage imports and encourage local production.
- Restricts or bans non-essential goods to prioritize essential imports.
- Tariffs are adjusted based on the Harmonized System (HS) code, which categorizes goods into different categories.
- The IPO is reviewed and updated regularly to reflect changes in the economy and trade policies.

**Special Economic Zones (SEZ) Act, 2012**

- Establishes SEZs to attract investment in manufacturing and exports.
- Offers tax holidays for a specified period to reduce the tax burden on investors.
- Provides duty-free import of machinery and equipment to reduce the cost of setting up businesses.
- Offers other incentives, such as subsidized utilities and infrastructure support.
- SEZs are designated areas with streamlined regulations and procedures to facilitate business operations.

**Small and Medium Enterprises Development Authority (SMEDA)**

- Supports SMEs through technical assistance, training, and business development services.
- Provides access to finance through loan schemes, grants, and equity investments.
- Offers marketing support and assistance in accessing domestic and international markets.
- Helps SMEs adopt new technologies and improve productivity.
- SMEDA has established business development centers and incubators to support start-ups and entrepreneurs.

**Tariff Rationalization**

1. Adjusts tariffs to protect domestic industries and encourage import substitution.
2. Tariffs are reduced or eliminated on raw materials and intermediate goods to support local production.
3. Tariffs are increased on finished goods to discourage imports and encourage local manufacturing.
4. Tariff rationalization is done regularly to reflect changes in the economy and trade policies.

**Local Content Requirements**

- Mandates the use of local content in certain industries, such as automotive and electronics.
- Requires manufacturers to use a minimum percentage of local components in their products.
- Encourages local production and reduces dependence on imports.
- Helps develop local supply chains and supports SMEs.

**Export-Oriented Industrialization**

- Encourages export-led growth by providing incentives for exporting industries.
- Offers tax breaks, duty drawbacks, and other benefits to exporters.
- Supports the development of export-oriented industries, such as textiles, leather, and sports goods.
- Encourages diversification of exports to reduce dependence on a few commodities.
- Provides training and support to exporters to improve product quality and marketing skills.

**Global Best Practices**

**China: Industrial Policy** China's industrial policy is a comprehensive framework aimed at promoting domestic industries and reducing dependence on imports. The policy includes:

- **Subsidies:** Financial support to domestic companies to encourage production and innovation.
- **Tax incentives:** Reduced tax rates or exemptions for domestic companies, especially in strategic sectors.
- **Government procurement policies:** Preference is given to domestic products in government tenders and contracts. These measures have enabled China to develop its domestic industries, particularly in sectors like technology, renewable energy, and high-speed rail (Jia et al., 2019).

**China: Special Economic Zones (SEZs)** China's SEZs are designated areas that offer favorable business conditions to attract domestic and foreign investment. The benefits include:

- **Tax incentives:** Reduced or exempted taxes for a specified period.
- **Streamlined regulatory processes:** Simplified and faster procedures for setting up and operating businesses.
- **Infrastructure support:** World-class infrastructure, including transportation, utilities, and telecommunications. SEZs have played a crucial role in China's economic growth, attracting significant foreign investment and promoting export-oriented manufacturing (Crane et al., 2018).

**Brazil: Local Content Requirements** Brazil's local content requirements mandate that certain industries, such as automotive and oil & gas, use a specified percentage of locally sourced components. This policy aims to:

- Promote domestic manufacturing.
- Encourage technology transfer.
- Reduce import dependence. By requiring local content, Brazil has developed its domestic industries, created jobs, and reduced its trade deficit (d'Almeida et al., 2019).

**Brazil: BNDES (Brazilian Development Bank)** BNDES is a state-owned development bank that provides long-term financing for projects that enhance local production and reduce import dependency. The bank's support includes:

- **Low-interest loans.**
- **Long-term financing.**
- **Risk mitigation instruments.** BNDES has played a vital role in Brazil's industrial development, supporting strategic sectors like infrastructure, energy, and manufacturing (Rezende & Smith Colleges, 2015).

**India: Make in India Initiative** The Make in India initiative is a comprehensive program aimed at promoting India as a global manufacturing hub. The initiative offers:

- **Tax benefits:** Reduced tax rates and exemptions for businesses.
- **Infrastructure development:** Upgraded infrastructure, including industrial corridors and smart cities.
- **Ease of doing business reforms:** Simplified regulatory processes and reduced bureaucratic hurdles. The initiative has attracted significant foreign investment, boosted domestic manufacturing, and created jobs (Bishnoi, 2019).

**Priority Sectors**

- Aerospace and Defense
- Information Technology & Information Technology-enabled Services (IT & ITeS)
- Automotive and Auto Components
- Tourism and Hospitality Services
- Pharmaceuticals and Medical Devices
- Medical Value Travel
- Biotechnology
- Transport and Logistics Services

- Capital Goods
- Accounting and Finance Services
- Textiles and Apparels
- Audio-Visual Services
- Chemicals and Petrochemicals
- Legal Services
- Electronics System Design and Manufacturing (ESDM)
- Communication Services
- Leather & Footwear
- Construction and Related Engineering Services
- Food Processing
- Environmental Services
- Gems and Jewelry
- Financial Services
- Shipping
- Education

**New Processes:**

"Make in India" acknowledges "ease of doing business" as the most crucial factor in promoting entrepreneurship. Several initiatives have already been implemented to improve the business environment.

**New Infrastructure:**

The government intends to develop industrial corridors and smart cities, and create world-class infrastructure with state-of-the-art technology and high-speed communication. Innovation and research activities are facilitated by a fast-track registration system and improved infrastructure for intellectual property rights (IPR) registration. Skill requirements for the industry will be identified, and workforce development will be undertaken accordingly.

**New Sectors:**

Foreign Direct Investment (FDI) has been opened up in defense production, insurance, medical devices, construction, and railway infrastructure in a big way. Similarly, FDI is being allowed in insurance and medical devices.

**New Mindset:**

In order to collaborate with industry for the economic development of the country, the government shall act as a facilitator and not as a regulator.

**Some Major Initiatives Taken:**

- **Production-Linked Incentive (PLI) Schemes:** In line with India's vision of self-reliance and the goal of enhancing manufacturing capabilities and exports, an outlay of INR 1.97 lakh crore (over US$ 26 billion) has been announced in the Union Budget 2021-22 for PLI schemes. These schemes cover 14 key manufacturing sectors and will commence from the fiscal year (FY) 2021-22.
- **PM GatiShakti & National Logistics Policy:** The PM GatiShakti is the first-of-its-kind initiative by the government to develop a multimodal logistics infrastructure for national transformation.
- **Industrialization and Urbanization:** The Government of India is advancing various Industrial Corridor Projects under the National Industrial Corridor Program. This program aims to create greenfield industrial regions/nodes that can rival the world's leading manufacturing and investment destinations. India has approved the development of 11 industrial corridors (32 projects) in four phases.
- **New Design, Innovation, and R&D:** India is home to the world's third-largest tech-driven startup ecosystem, with over 79,100 startups. The "Start-up India" initiative aims to encourage entrepreneurship and drive innovation by establishing an ecosystem that supports the growth of startups.
- **Discount on Tax:** Tax rates were adjusted to support the Make in India initiative. India now boasts some of the lowest tax rates in Asia, enhancing its competitiveness on the global stage.

**Practical Steps to Adopt a Similar Model:**

- The government should act as a facilitator rather than a regulator.
- Import tax rates should be reduced.
- Technology-driven startups can promote entrepreneurship.
- The focus should not only be on developing new corridors but also on the successful execution of existing projects like CPEC, which is crucial at present.

**India: Public Procurement Policy**

India's public procurement policy mandates preference for domestically produced goods in government procurement. The policy aims to:

- Promote domestic industries
- Reduce import dependence
- Support local businesses

**India: Trade and Development Authority of India (TDAI)**

TDAI is a premier trade promotion organization of the Government of India, established in 1998. Its primary objective is to promote India's trade and economic relations with other countries, particularly in the areas of:

1. **Trade Promotion:** Facilitating Indian businesses to access global markets and promoting Indian products abroad.
2. **Market Research and Intelligence:** Providing market insights and analysis to Indian exporters and investors.
3. **Trade Facilitation:** Simplifying trade procedures and reducing transaction costs.
4. **Capacity Building:** Enhancing the competitiveness of Indian industry through training and capacity-building programs.
5. **Investment Promotion:** Attracting foreign investment into India and promoting Indian investments abroad.

TDAI has a wide range of activities, including:

- Organizing trade fairs, exhibitions, and conferences
- Conducting market research and surveys
- Providing training and capacity-building programs
- Facilitating business delegations and trade missions
- Collaborating with foreign trade promotion agencies and organizations

TDAI has offices in India and abroad, including in key markets such as the USA, Europe, Africa, and Asia. It works closely with Indian industry, government agencies, and foreign trade organizations to promote India's trade and economic interests.

By giving preference to domestic products, India has encouraged domestic manufacturing, created jobs, and reduced its trade deficit.

**SWOT Analysis of Pakistan's Institutions Responsible for Export Promotion and Import Substitution**

**Strengths**

- The Ministry of Commerce (MOC) provides strategic direction through the STPF, targeting $46 billion in exports by 2025 with comprehensive incentives like duty drawbacks, export refinancing schemes, and tax exemptions.
- The Federal Board of Revenue (FBR) implements modern customs procedures, including electronic customs clearance systems, significantly enhancing trade efficiency by reducing clearance times.
- The Trade Development Authority of Pakistan (TDAP) offers market research, trade missions, international exhibitions, and capacity-building programs while collaborating with international trade bodies to enhance the global competitiveness and market access of Pakistani exporters.

- **Regulatory Authority:** The Ministry of Commerce has the authority to implement trade policies, control tariffs, and regulate commerce laws, ensuring stable and predictable business environments. As a regulatory authority, it provides advantages like market oversight, which enables the monitoring and management of market activities to prevent excesses and mitigate risks that could lead to economic instability. Regulatory bodies establish safety and quality standards that businesses must comply with, protecting public health and safety. They ensure compliance through inspections, audits, and penalties, reducing risks associated with unsafe products and practices. Additionally, these frameworks enhance consumer and investor confidence by fostering transparency and accountability, thus strengthening trust in the market. Authorities often provide mechanisms for resolving disputes between businesses and consumers, further boosting confidence.
- **Ability to Promote Fair Competition:** By enforcing standards and regulations, authorities protect consumers from fraudulent, unsafe, or unfair business practices, ensuring a fair marketplace. Regulatory authorities can break up monopolies or prevent their formation by scrutinizing mergers and acquisitions that would reduce competition. They can also prohibit practices such as price-fixing, market allocation, and bid-rigging that unfairly restrict competition.
- **Experienced and Diverse HR:** Staffed with economists, trade experts, and legal advisors who bring extensive experience and expertise.
- **CPEC and Infrastructure Projects:** The China-Pakistan Economic Corridor (CPEC) offers significant infrastructure investments, improving logistics and connectivity. This will enhance transportation networks and energy infrastructure. Additionally, collaboration with Chinese companies in infrastructure development and industrial projects facilitates technology transfer, knowledge sharing, and skill development among Pakistani workers and engineers.
- **Strategic Partnership:** CPEC strengthens Pakistan-China bilateral relations, fostering strategic cooperation and mutual trust, while also enhancing Pakistan's standing in the international arena as a key player in regional development initiatives. The economic benefits derived from CPEC projects contribute to political stability and security in Pakistan, creating a conducive environment for further investment and development. Training programs and educational exchanges associated with CPEC projects enhance the capacity and expertise of Pakistani professionals, fostering innovation and entrepreneurship.
- **Strategic Partnerships:** Pakistan has a strong ability to negotiate and maintain international trade agreements and partnerships. It has maintained active trade agreements with China, the EU, the United States, Middle Eastern countries like the UAE and Qatar, and regional organizations such as the South Asian Free Trade Area (SAFTA) and the South Asian Association for Regional Cooperation (SAARC).

- **Policy Development:** Effective in creating and implementing policies that promote trade as the regulating authority.
- **Data and Analytics:** Access to comprehensive economic data for informed decision-making.

**Weaknesses**

- **Limited Resources and Budget Allocations:** These restrict TDAP's ability to fully support all exporters, especially smaller enterprises. Additionally, its slower adoption of advanced digital tools and platforms leads to inefficiencies.
- **MOC Challenges:** The Ministry of Commerce faces challenges with inconsistent policy implementation across different regions, leading to disparities and confusion among exporters and manufacturers.
- **Bureaucratic Inefficiencies:**
  - **Complex Procedures:** Despite some simplification, export procedures still involve bureaucratic red tape that can delay processes and increase costs.
  - **Inconsistent Implementation:** Policies and incentives are not always implemented consistently across regions, causing disparities and confusion among exporters and manufacturers.
- **Limited Technological Adoption:**
  - **Digitization Gap:** Compared to global best practices like Singapore's TradeNet, Pakistan's export and import processes lack full digitization, resulting in inefficiencies.
  - **Outdated Infrastructure:** Technological infrastructure supporting trade and industrial operations is not always up to global standards, limiting efficiency and competitiveness.
- **Financial Constraints:**
  - **Limited Access to Finance:** SMEs often face difficulties in accessing adequate financing, hampering their growth and capacity to substitute imports with locally produced goods.
  - **Lack of Dedicated Export Bank:** Unlike South Korea's Export-Import Bank, Pakistan lacks a specialized financial institution to provide robust financial support to exporters.
- **Insufficient Market Diversification:**
  - **Narrow Export Base:** Heavy reliance on a few sectors (e.g., textiles) makes Pakistan vulnerable to global market fluctuations and limits overall export growth potential.
  - **Limited Product Range:** Export products are often not diversified, reducing competitiveness and market reach.

**Opportunities**

1. **Global Market Expansion:**

- **Emerging Markets:** Opportunities exist to explore and penetrate emerging markets in Africa, Central Asia, and Southeast Asia, diversifying export destinations.
- **Free Trade Agreements (FTAs):** There is potential to negotiate new FTAs or optimize existing ones to enhance market access for Pakistani products.

**Technological Advancements:**

- **Digitization Initiatives:** Adopting advanced digital systems for trade processes can streamline operations and reduce costs.
- **Innovation in Manufacturing:** Leveraging new technologies and innovations in manufacturing can enhance productivity and competitiveness.

2. **Investment in SEZs:**
    - **Attracting Foreign Direct Investment (FDI):** Enhanced promotion and development of SEZs can attract significant FDI, boosting local production capabilities.
    - **Public-Private Partnerships (PPPs):** Encouraging PPPs within SEZs can lead to better infrastructure and service provision, supporting industrial growth.
3. **Capacity Building Programs:**
    - **Enhanced Training:** Expanding training programs for exporters and SMEs can improve quality standards and operational efficiency.
    - **Market Intelligence:** Providing more extensive market intelligence and support can help businesses adapt to changing global demands.

**Threats**

1. **Global Economic Volatility:**
    - **Market Fluctuations:** Economic downturns and fluctuations in global demand can adversely affect Pakistan's exports, particularly in non-diversified sectors.
    - **Trade Barriers:** Increasing protectionism and trade barriers in key markets can limit export growth.
2. **Regional Instability:**
    - **Political and Security Risks:** Regional political instability and security concerns can deter foreign investment and disrupt trade activities.
    - **Geopolitical Tensions:** Tensions with neighboring countries can impact cross-border trade and economic cooperation.
3. **Competitor Nations:**

- **Competitive Pressure:** Emerging economies with similar export profiles pose significant competition, potentially eroding market share.
- **Technological Advancement in Competitors:** Competitor nations adopting advanced technologies faster can outpace Pakistan in global markets.

4. **Environmental and Social Challenges:**
   - **Sustainability Issues:** Environmental concerns and pressures to adopt sustainable practices can increase operational costs and require substantial adjustments in industrial processes.
   - **Labor Market Constraints:** Issues such as labor unrest and skill shortages can hinder production efficiency and export performance.

**PESTLE Analysis**

**Political:**

- **Stability and Policy Consistency:** Political stability is crucial for the implementation of export and import policies. Frequent changes in government and policy direction can disrupt long-term plans.
- **Government Initiatives:** The government has introduced various initiatives like the STPF and SEZ Act, showing a commitment to improving the trade balance.

**Economic:**

- **GDP Contribution:** The export sector contributes significantly to GDP and employment.
- **Exchange Rates:** Fluctuations in exchange rates impact export competitiveness.
- **Inflation and Interest Rates:** High inflation and interest rates can increase production costs, making exports less competitive.

**Social:**

- **Employment:** Export industries, especially textiles, provide substantial employment opportunities.
- **Skill Development:** There is a need for improved training and capacity-building to enhance productivity and quality in export-oriented sectors.

**Technological:**

- **Innovation and Digitalization:** Limited adoption of technology in trade processes. There is a need for digital platforms like Singapore's TradeNet to streamline procedures.

- **Research and Development:** Investment in R&D is low, which impacts product innovation and competitiveness.

**Legal:**

- **Regulatory Framework:** Export Policy Order (EPO) and Import Policy Order (IPO) provide the legal framework, but bureaucratic hurdles persist.
- **Compliance and Standards:** Ensuring compliance with international standards is critical for market access, which requires a robust legal framework.

**Environmental:**

- **Sustainability:** Increasing global emphasis on sustainable practices. Export sectors need to adopt environmentally friendly practices.
- **Resource Management:** Efficient use of resources and reducing waste are essential for sustainable growth.

**GAP Analysis**
**Current State vs. Desired State:**
**Policy and Framework:**

- **Current:** Policies like the STPF and SEZ Act are in place, but implementation is inconsistent, and bureaucratic inefficiencies are prevalent.
- **Desired:** Streamlined, transparent, and efficiently implemented policies.

**Technological Adoption:**

- **Current:** Limited digitization of export processes and outdated infrastructure.
- **Desired:** Full digitization of trade processes, with the adoption of advanced technologies for manufacturing and export documentation.

**Financial Support:**

- **Current:** Limited access to finance for SMEs and a lack of a dedicated export bank.
- **Desired:** Robust financial support systems, including a dedicated export bank similar to South Korea's Export-Import Bank.

**Market Diversification:**

- **Current:** Heavy reliance on a few sectors (e.g., textiles).

- **Desired:** Diversified export base, tapping into sectors like IT, agriculture, and services.

**Capacity Building:**

- **Current:** Limited training and capacity-building programs.
- **Desired:** Extensive and continuous training programs to enhance skills and productivity.

**Challenges**

1. Pakistan's export sector grapples with multifaceted challenges, as reflected in statistical trends. The country's export concentration index, a measure of market diversification, indicates a high dependence on a few key markets. For instance, the United States, the European Union, and Middle Eastern countries collectively absorb over 60% of Pakistan's total exports, exposing the sector to external shocks and market volatility.
2. Inadequate infrastructure remains a pressing concern, with the World Bank estimating that poor infrastructure reduces Pakistan's GDP by 3% annually.
3. Pakistan faces stiff competition from regional rivals and emerging economies. Bangladesh, India, and Vietnam, with their competitive labor costs and robust trade infrastructure, pose formidable challenges to Pakistan's export competitiveness.
4. Textiles, Pakistan's flagship export sector, faces intense competition from Bangladesh, which surpassed Pakistan to become the world's second-largest apparel exporter in 2019.
5. Despite having a policy framework and institutional support, the country faces several challenges, including bureaucratic inefficiencies, limited technological adoption, financial constraints for SMEs, and insufficient market diversification.
6. Political instability and security concerns are significant challenges to ensuring the smooth functioning of institutions in the country.
7. Inefficient transportation infrastructure, including poor road conditions, inadequate public transportation, and congested traffic, delays the movement of goods. This leads to higher transportation costs, longer delivery times, and reduced reliability.
8. Procedural flaws in institutional frameworks: Procedural flaws in the Ministry of Commerce often stem from a lack of transparency and accountability, leading to inefficiencies and mistrust among stakeholders. Bureaucratic delays, characterized by lengthy and complex approval processes, further hinder effective policy implementation and economic activities.
9. Low productivity and high competition: The global market presence of superpowers makes it difficult for a developing country to establish its place and compete with limited resources.

10. Brain drain of the skilled workforce: Brain drain, the emigration of skilled professionals and educated individuals from Pakistan, has been a significant concern in recent years. This trend is driven by various factors, including limited job opportunities, political instability, and better career prospects abroad, which in the long term can lead to an HR deficiency.
11. Lack of coordination with the diaspora: Insufficient engagement and communication between the government and the diaspora leads to missed opportunities for investment, knowledge transfer, and collaboration. Many expatriates are willing to contribute to Pakistan's development, but the absence of structured programs and incentives discourages their involvement.
12. Underperformance of commercial attaches: Inadequate training and lack of relevant experience contribute to the underperformance of commercial attaches. Additionally, insufficient resources and support from the home government can limit their ability to perform effectively. A lack of clear performance metrics and accountability mechanisms further exacerbates the issue.

## *Conclusion*

Pakistan’s export promotion efforts, particularly through the STPF and TDAP, align well with global best practices by focusing on financial incentives, market access, and capacity building. However, Pakistan could benefit from further digitizing and streamlining export processes, similar to Singapore’s TradeNet. Additionally, establishing a dedicated export bank, as seen in South Korea, could provide more robust financial support to exporters.

Pakistan’s import substitution policies, particularly through the IPO and SEZ Act, provide a strong foundation for reducing import dependency and promoting local production. However, these policies could be enhanced by adopting more aggressive local content requirements, as seen in Brazil, and by providing robust financial support through a dedicated development bank. Additionally, initiatives like India’s “Make in India” could serve as a model for creating a more conducive environment for domestic manufacturing through comprehensive reforms and incentives.

Pakistan's export promotion and import substitution strategies hold significant potential for driving economic growth and stability. By addressing these issues through targeted and pragmatic actions, Pakistan can enhance its trade performance and achieve sustainable economic progress. A holistic approach involving policy implementation, technological advancement, financial support, and capacity building is essential to overcome these challenges and leverage the opportunities identified.

## *Recommendations*

1. **A 5-Year National Charter for Exports**: Established and overseen by the Prime Minister to consistently prioritize exports as warranted. This policy should transition the bureaucratic mindset from "control" to "empowerment." A long-term strategy that unifies all stakeholders is necessary to streamline planning and incentivize investment for scalability and enhanced competitiveness.
2. **Exports Need to Be an Integral Part of an Industrial Policy**: There is a need to promote manufacturing, including rational import substitution. An export policy that is not closely linked with manufacturing and imports is not sustainable in the long term. A National Industrial Policy should address all aspects of manufacturing, including exports and import substitution.
3. **Accountability of All Export Incentives**: Export incentives, funded by taxpayers, must be subject to proper accountability. These incentives should be reviewed for each sector at least annually, and their continuation or modification should be based on the achievement of prescribed medium- to long-term objectives. Short-term incentives often result in short-term performance.
4. **An Export Facilitation Scheme (EFS)**: The Export Facilitation Scheme should promote integration into global supply chains. The recently implemented scheme needs revision with input from all stakeholders. The current configuration of the scheme does not enable multiple domestic firms working together to be part of the supply chain of exporting firms.
5. **Energy at Competitive Rates for All Export Sectors**: All exports should be entitled to energy at a cost that is globally competitive. This will help broaden the export basket. For industries producing a mix of exported and domestically marketed products, a rebate should be offered on the quantity exported to make the input cost of energy globally competitive.
6. **Competitive Rate of the Pakistani Rupee**: In recent years, Pakistani exporters have lost market share due to an artificially high value of the currency, which has made exports uncompetitive and subsidized imports. The Pakistani Rupee needs to be maintained at a real exchange parity of about 100%.
7. **Invest to Promote the Growth of Exports**: The government needs to take a leap of faith by allocating a significant portion of the Export Development Fund (EDF) for upfront investments in non-core and new markets. Pakistan must heavily invest in diversifying both its products and export destinations.
8. **Wash Exports Clean of All Domestic Taxes and Duties**:

As a fundamental principle, all import duties and domestic transaction costs, regardless of where they are incurred in the supply chain leading up to the final point of export, should be reimbursed to the final exporter. This would enhance price competitiveness.

9. **Promotion of Pakistani Brands in International Markets**: Strong brands can demand higher prices. Pakistani exporters should be permitted to acquire and develop brands that they already own. Acquiring a brand is a capital investment, while developing a brand incurs expenses.
10. **A State-Sponsored National Brand Building Program**: Pakistan could gain valuable insights from the Turkish "TURQUALITY" Program, where the Turkish government has been funding the development of 10 globally recognized Turkish brands. A "PAKQUALITY" initiative should be promoted under the Public-Private Partnership (PPP) model to ensure that Pakistani brands also achieve regional and global recognition.
11. **Time for Realization of Export Proceeds Needs to Be Flexible**: Pakistani exporters must receive export proceeds within a brief timeframe, which prohibits the warehousing of products for subsequent "just-in-time" sales, a practice increasingly demanded by foreign buyers. To address this, larger exporters should be allowed to warehouse inventory abroad. This is particularly important for serving online sales portals like Amazon, which require prompt domestic shipping for foreign suppliers to gain access. However, this could result in longer times for remittance of export proceeds.
12. **Financing for SMEs**: Implementing a vendor financing and export house model could enhance the integration of SMEs into the export chain. Japan and Korea successfully developed their exports using the export house model, with companies like Mitsubishi and Mitsui providing a valuable model and learning opportunity.
13. **FDI Should Be Export-Focused**: Pakistan has struggled to attract foreign investment in exports, even in sectors like agriculture with significant potential. A differentiated Foreign Direct Investment (FDI) policy, which can positively impact the external account, is recommended to attract new foreign investment. Additionally, existing foreign companies operating in Pakistan should be encouraged to integrate into their global value chains by exporting from Pakistan.
14. **Increase Value-Addition in Current Export Basket**: The bulk of Pakistan's exports are cotton-based, while global demand is shifting to fabricated fibers, which are also ideal for emerging technical textiles. There is significant scope to change the cotton/man-made fiber mix and to move up the value chain.
15. **Incentivize Export of Services**: Unlike the export of goods, which attracts rebates, the export of services is not similarly incentivized. Rebates would also encourage the full remittance of sale proceeds. IT and IT-enabled service companies lack immovable collateral for bank borrowing. Their work-in-progress and receivables should form the basis of bank lending. Call centers are charged GST even on export services, which should be withdrawn. Equipment required for developing software and operating call centers and back-office services should be permitted to be imported duty-free.

16. **Moratorium on Signing New Trade Agreements**: Pakistan's trade agreements have resulted in an increase in imports without significant improvements in exports. Trade agreements should be based on economic considerations rather than solely on political or emotional ties, both at the national and individual levels.
17. **Adoption of Alternative Energy Sources like Electric Vehicles, Solar, and Wind Power**: Substitution of energy sources can reduce the operational cost of exports.

*LOG Frame Work Matrix:*

**Objective 1: Enhance Policy Implementation and Coordination**

| Action | Responsibilities | Resources | Timelines | Indicators | Means of Verification |
|---|---|---|---|---|---|
| Reduce processing times for official reports and export documentation by 50% within two years. | Federal Government/Relevant Ministries (e.g., Ministry of Commerce) | PSDP funds / Donor funds | 2 years | Reduction in average processing time | Reports from relevant ministries, Third-party surveys of businesses |
| Create a central coordination unit within Pakistan. | Relevant Ministry (e.g., Ministry of IT & Telecom) | PSDP funds / Donor funds | 1 year | Establishment of the unit, Functional website/office of the unit | Government gazettes, Unit website/office functionality reports |
| Develop and implement a comprehensive digital platform for official reports and export documentation. | Relevant Ministry (e.g., Ministry of IT & Telecom) | PSDP funds / Donor funds | 8 Months | Platform development milestones achieved, User registration numbers | Project progress reports, Platform usage statistics |

**Objective 2: Adopt Technological Solutions:**

| Action | Responsibilities | Resources | Timelines | Indicators | Means of Verification |
|---|---|---|---|---|---|
| Secure funding for National Trade Portal | Ministry of Finance | Budget allocation | 1 year | Funding secured; Funding amount | Public announcement; Funding agreement |
| Develop National Trade Portal plan | MOC | Consultants; Technical experts | 1 year | Plan finalized | Public document |

| | | | | | |
|---|---|---|---|---|---|
| Award contract for National Trade Portal development | MOC | Bidding process; Selection committee | 4 Month | Contract awarded | Public announcement; Contract documents |
| Implement National Trade Portal | Contractor | Technical resources | Year 2 | Portal operational (beta version) | Press release; Portal beta launch |
| Upgrade technological infrastructure | Ministry of Information Technology (MoIT) | Budget allocation | Year 1, Q2- Year 3 | Infrastructure upgrades completed | Progress reports; Technical documentation |
| Launch National Trade Portal | MOC | Marketing campaign | Year 2, Q4 | Portal launched | Press release; Public announcement |
| Monitor and improve National Trade Portal | MOC | User feedback; Data on portal usage | Ongoing | Increased portal usage | User surveys; Portal usage statistics |

## Objective 3: Strengthen Financial Support for SMEs

| Action | Responsibilities | Resources | Timelines | Indicators | Means of Verification |
|---|---|---|---|---|---|
| Secure funding for EDB | Ministry of Finance (MoF), SBP | Budget allocation; International aid (e.g., Islamic Development Bank) | Year 1-2 | Funding secured in principle; Funding amount secured | Public announcement; Funding agreement framework |
| Develop EDB business plan | MoF, SBP, Financial experts | Consultants; Market research data specific to Pakistan | Year 2 | Business Plan finalized with detailed implementation roadmap | Public document |
| Establish legal framework for EDB | Ministry of Law | Legal team; Regulatory expertise, Islamic banking principles | Year 2-3 | Enabling legislation drafted and submitted for approval | Legal document progress reports |
| Recruit and train EDB staff | EDB board | Budget allocation; Human resources team with focus on Islamic finance | Year 3-4 | Core EDB team recruited and trained | Hiring records; Training reports on core competencies |
| Launch EDB operations in Pakistan | EDB management team | Bank infrastructure; Financial products tailored to Pakistani SMEs | Year 4 | Limited EDB operations launched (e.g., pilot programs) | Press release; EDB website with initial product offerings |
| Full-scale EDB operations | EDB management team | Continued funding; Expansion of product range | Year 5+ | Full range of EDB services available | Public announcement; EDB website reflecting full product suite |

## *References*


1. Ahmad, I., Ahmad, M., Qadir, G., & Afridi, A. K. (2024). Pakistan's export potential assessment at intensive and extensive margins. *Review of International Business and Strategy*, *34*(1), 152–169. https://doi.org/10.1108/RIBS-05-2023-0039
2. Afgun, A. (2022). Insight-Imports-and-Exports-of-Pakistan-Need-to-Explore-New-Markets. Institute for Strategic Studies, Research and Analysis.
3. Amsden, A. H. (2004). Import substitution: Prebisch lives in Asia! *CEPAL Review*.
4. Awan, A. G., & S. S. (2019). Causes of trade deficit and its impact on Pakistan's economic growth. Global Journal of Management, Social Sciences and Humanities.
5. Bader, S. (2006). Determining import intensity of exports for Pakistan. SBP Research Bulletin, 2(2).
6. Bishnoi, V. (2019). Make in India initiative: A key for sustainable growth. South Asian Journal of Marketing & Management Research, 9(3), 21. https://doi.org/10.5958/2249-877X.2019.00013.4
7. Bux Lakhan, A. (2021). Basic parameters of trade deficit in Pakistan. PalArch's Journal of Archaeology of Egypt/Egyptology.
8. CrimsonLogic. (n.d.). Case study: Singapore TradeNet®. Retrieved June 1, 2024, from https://www.crimsonlogic.com/case-study-singapore-tradenetr
9. Pakistan Business Council (PBC) & The Consortium for Development Policy Research (CDPR). (n.d.). Challenges and opportunities.
10. Crane, B., Albrecht, C., Duffin, K. M., & Albrecht, C. (2018). China's special economic zones: An analysis of policy to reduce regional disparities. Regional Studies, Regional Science, 5(1), 98–107. https://doi.org/10.1080/21681376.2018.1430612
11. d'Almeida, A. L., Apolinário, B. de P., & Ribeiro, L. F. (2019, October 28). Brazilian local content policy: An overview and analysis of adjustment clauses applications. Day 3 Thu, October 31, 2019. https://doi.org/10.4043/29696-MS
12. DAWN.COM. (n.d.). Foreign trade debate.
13. GTAI – Invest in Germany. (n.d.). Retrieved June 1, 2024, from https://www.gtai.de/en/invest
14. Israr Ahmed, P. D. (2022). An effect of trade shortfall, external obligation on exchange rate: A case study on Pakistan. KASBIT Business Journal.
15. Jia, P., Myrto, B., Nahim, K., Zahur, B., Thank, W., Barseghyan, L., Benkard, L., Berry, S., Caunedo, J., Coate, S., Einav, L., Gerarden, T., Houde, J. F., Kanbur, R., Lawell, C. L., Lee, R., De Loecker, J., Molinari, F., Naughton, B., ... Bin Zahur, N. (2019). China's industrial policy: An empirical evaluation. National Bureau of Economic Research. http://www.nber.org/papers/w26075

16. Khan, A. H. (2023). Reconfiguring Pakistan's economy. Pakistan Institute of Development Economics.
17. Korea Trade-Investment Promotion Agency. (n.d.). Company profile and news. Bloomberg Markets. Retrieved June 1, 2024, from https://www.bloomberg.com/profile/company/ABEQCZ:KS
18. Krueger, A. O., & National Bureau of Economic Research. (1981). Trade and employment in developing countries: Volume 1, Individual studies. University of Chicago Press.
19. Ministry of Commerce, Government of Pakistan. (n.d.). Retrieved June 1, 2024, from https://www.commerce.gov.pk/
20. Muhammad Asif, A. A. (2021). Role of tariffs, import substitution, and investment efficiency in economic growth of Pakistan. Springer Link.
21. Munir, & Kashif. (2015). Export, import, and total trade potential of Pakistan: A gravity model approach. Munich Personal RePEc Archive.
22. Mustafa, G., & Hussain, S. (2023). What are the factors making Pakistan's exports stagnant? Insight from literature review. UNCTADstat. https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en
23. Noor Ul Ain. (2020). Import substitution and export promotion: An empirical evidence from Pakistan.
24. Pakistan Bureau of Statistics, External Trade Section I. (2023). Report on external trade.
25. Pakistan Development Update: Reviving exports. (2021).
26. Pakistan Economic Survey. (2022). Annex III information.
27. Pakistan export data | Pakistan trade data. (n.d.). Retrieved June 1, 2024, from https://www.tradeimex.in/pakistan-export
28. Pakistan Export Strategy Pharmaceuticals. (2023). International Trade Centre. http://www.intracen.org
29. RDACell, Ministry of Commerce. (n.d.). Retrieved June 1, 2024, from https://rdacell.com/view.aspx?v=5
30. Rezende, F., & Smith Colleges, W. (2015). Why does Brazil's banking sector need public banks? What should BNDES do? Levy Institute. http://www.levyinstitute.org
31. Shahid Satar, A. U. (2023). Beyond import substitution: Charting Pakistan's future with export-led growth. Policy and Research, Pakistan Institute of Development Economics.
32. Singapore Customs Procedures & Processing Branch. (n.d.). Singapore background.
33. Singapore Customs. (2012).
34. State Bank of Pakistan. (2014). Annual Report: Special Section 3: What has caused stagnation in Pakistan's exports.
35. State Bank of Pakistan. (2022). Half Year Report: Special Section: Pakistan's growing IT exports and tech start-ups: Opportunities and challenges. www.wipo.int/export/sites/www/about-ip/en/frontier_technologies/pdf/frontier-tech-6th-
36. Strategic Trade Policy Framework (STPF) 2020-25. (n.d.).

37. Strengthening exports is critical for Pakistan's sustained economic growth. Pakistan Development Update, October 2021.
38. The Export-Import Bank of Korea (KEXIM) | Export credit agency (ECA) in Korea. (n.d.). Retrieved June 1, 2024, from https://www.tradefinanceglobal.com/export-finance/export-credit-agencies-eca/kexim-korea-eca/
39. Year-book 2016-17.